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AMERICAN BANKERS ASSOCIATION

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AMERICAN BANKERS ASSOCIATION

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It is as necessary now as ever that the banks of the country give heed to the great importance of keeping themselves liquid.

The books for subscriptions to the Liberty Loan closed at noon on June 15. The Loan was oversubscribed by more than one billion dollars. The reports from thousands of banks show that millions of dollars of bonds were sold to the people on some partial payment plan. The banks, therefore, have undertaken to carry these bonds for fairly long periods, usually fifty weeks.

The reports also show that of the bonds subscribed for on their own account the banks still hold approximately \$500,000,000, or one-quarter of the Loan. This amount will be reduced to some extent in the allotment by the Treasury, but no bank will discharge its full duty or render the full measure of support to the financial situation if it does not make every effort to sell to the people the bonds it has on hand.

There should be no cessation of effort to sell Liberty Loan bonds until all have been placed with the people.

Clearing the banks of bonds is the best preparation for the next war loan.

Thrift must be encouraged. Only from the savings and the additional savings of the people can funds be secured for the proper financing of the war.

The banks of the United States made the first issue of Liberty Loan bonds a mighty success. The next issue must be an equally great success.

P. W. Goebel

Topics of the Month

THE LIBERTY LOAN

THE Liberty Loan was a success. The government secured the amount asked for. It is estimated that there are 4,000,000 subscribers. If this estimate is approximately correct the loan must be denied strict classification as a popular loan. When less than one person in thirty contributes to support a cause in which all are commonly interested, the cause can hardly be called popular. This conclusion, however, while superficially logical, is far from correct. The experience of those who shared actively in promoting the sale of the bonds was the same everywhere. Where the people could be reached and made to understand, their response was invariably all that patriotism could desire.

It was unfortunately impossible in the time allotted to reach the people everywhere. The organization of sales promoters was not the same everywhere. It was necessary to educate leaders and then pass the work of local education along to them. No one had had any experience in this particular kind of work. In the beginning it was assumed that the first necessity was to advertise the bonds. Presently it was discovered that advertising the bonds was a mere incident. The great necessity was to advertise the war. The people did not understand what war means and what it demands. They don't understand it yet. They may not understand it until it is brought home to them in terms of positive deprivation, in casualty lists and disasters. So far as this understanding could be brought home to them, they made the loan a popular success.

In the work of selling the bonds the banks did everything that was expected of them. The leadership in the organization and publicity work fell to them and they reinforced this by actual sales campaigns. How much it cost them cannot be estimated. Their outlays of cost for advertising and equipment may soon be fairly estimated but their time cannot be. Thousands of them devoted all their energies for weeks to the campaign. They gave services which could not be bought. They worked unceasingly to make the loan a success and often in the face of great difficulties.

These difficulties were obvious but unavoidable. It was a preposterous proposition that the government should engage in a gigantic selling campaign without any preparation whatever for meeting the expense of it. The government knows it now. But, if the government did not provide any funds for the expense, government officials were very jealous of displays of initiative and most eager to control all plans.

The campaigners found that the apathetic condition of the people had been caused by innocent blunders when the loan was first announced. It was given out that the loan would be speedily oversubscribed, that the country was rolling in wealth and that these bonds would develop the unusual trait of selling themselves. There was, therefore, as much to undo as to do before the people began to realize that this task concerned them individually and was not the special affair of a vague and intangible something that could evolve money from cloud banks.

The efforts of the bankers were supplemented by those of the newspapers, the advertising men and the bond

houses and their salesmen. Needless to say, the newspapers responded mightily to the call of the country. They gave space, men and often display advertising. The services of the advertising men were beyond price. The National Advertising Advisory Board of the Associated Advertising Clubs of the World and hundreds of their members worked long hours not only in writing copy but in securing newspaper space by appeals to those who habitually use it. In this way merchants, bond dealers, bankers and others were brought into combination and large display advertisements became possible.

The bond houses and their salesmen rendered invaluable services. Hundreds of bond salesmen—in New York alone they numbered 550—gave up their entire time to selling the Liberty Bonds. They canvassed offices, factories and stores. They spoke to thousands of gatherings and in thousands of theaters. They taught employers how to help their employees to buy bonds. They showed employees how to form clubs and arrange with banks for credit against the bonds. They formed the final link in the chain which connected the treasury with the people—the indispensable link. They brought training and technical knowledge to the work and they paid their own bills.

It is doubtful if such an organization can be brought into action again. With all its virtues it had grave defects. Lack of directing authority and centralization, failure of connection between publicity and selling, and the impossibility of foreseeing the financial needs and meeting them, caused much waste of effort and waste of money.

The experience will be lost if the campaign for the next issue of bonds is not thoroughly financed and organized in advance. War information and the creation and stimulation of enthusiasm are preliminary needs that cannot be dispensed with. The advertising and news publicity work must be standardized and co-ordinated and this must be supplemented by a speaking campaign in which trained men will work. Following all will come the actual selling work in which will be used all the capital created in advance by the other forces. Bonds—actual bonds—in small denominations; probably as low as twenty dollars, must be in hand for delivery if thousands of possible subscribers are not to be lost. Whether the advertising experts and the bond salesmen can again be drawn from their regular occupations for such a purpose is problematical, but it won't matter much whether they can or cannot be if there is not a competent central organization to which they will be responsible—to which they will wish to be responsible—and which will be concerned with the business conduct of a big business enterprise and not with self-advertisement.

In the campaign for the sale of Liberty Bonds the American Bankers Association, by action of the Executive Council, undertook to assist the banks from the general offices in New York. The particular purpose was to endeavor to supply the banks, and particularly the smaller banks, with the material which they would need. It was pretty plain in the beginning that the city banks could work out their own organizations. In most cases they did it. But the material sent and the various plans outlined by the General Committee were apparently popular because they were very extensively used and followed.

In doing this work and in appointing its War Loan Committees, the General Committee contemplated no interference and no conflict with any of the other agencies at work. As a matter of fact, there was no conflict. But no other organization or agency stands in the same relation to the banks as the Association and none was or could be so well equipped to perform the general service that was in fact performed.

At this time 5,000 reports received from banks have been partially tabulated and thousands of newspapers carrying the publicity material and the advertisements furnished by the General Committee have been received. Liberty Loan Committees in the several reserve districts are pleased to report the number of pages of newspaper advertising they secured in multiples of ten. The New York Committee was right in congratulating itself that 125 full pages of advertising copy in New York city was a real achievement. Already there have been received 1,006 copies of a one-page advertisement supplied by the American Bankers Association, from 1,006 different newspapers.

The reports now in process of tabulation indicate clearly that 25 per cent. of the bonds subscribed for by the banks remain in their possession, but that the sale of them is still going on with the prospect that practically all of them will be sold to the investing public. It is also shown that the banks which used the material supplied by the American Bankers Association sold \$1,500,000 of the bonds—more than half of the total amount subscribed and that the banks which used this material were most successful in selling large quantities to the people.

BANKING TRENDS AND TENDENCIES

Congress and the Supreme Court of the United States have shared about equally during the past month in contributing to the evolution of banking in the United States. Congress passed the amendments to the Federal Reserve Act. These have been under consideration in various forms for nearly a year. The Supreme Court decided the case, appealed from the Supreme Court of Michigan, in which section 11 (k) of the Reserve Act was declared to be constitutional. To the development of banking the decision of the court and the amendments are of surpassing importance. The evolution that began with the enactment of the reserve law has been advanced a long step and the future of banking becomes of still more absorbing interest.

It is section 11 (k) which gives the Federal Reserve Board the power to confer on national banks the right to discharge trust company functions. The confirmation of the right of the Reserve Board to do this removes the last obstacle to any bank's exercising any powers (except only mutual savings banks) so far as Federal laws are concerned. It is a singular reversal of the usual order that, under this decision, state banks in Michigan will be more restricted in their operations than national banks and trust companies will be more restricted than either. For some time legislative efforts have been made in Michigan to enlarge the powers of trust companies, or rather to permit state banks to exercise trust company powers. In the face of possible competition in this field from national banks this tendency is likely to become more pronounced and perhaps eventually successful.

This is but one more illustration of the tendency toward the equipment of all banks with general powers. It was at the insistence of the national banks that section 11 (k) was placed in the Federal Reserve Act. The national banks had long felt the competition of the state banks and the competition was becoming constantly more severe because of the more liberal state banking laws.

On the other hand, the Reserve Act took from the national banks their monopoly of the note-issuing privilege. In the early days of the National Bank Act this privilege was most valuable, but despite the handicap the state banks increased in number and in strength. The development of the check system compensated them for the loss of the privilege of note issue and they were on more than even terms in this respect when the Federal Reserve Act came to deprive the national banks of their one great advantage.

In return for that loss came the provision empowering the Federal Reserve Board to grant trust company powers to national banks.

The national banks are still at a disadvantage in regard to branches, a privilege which the state banks enjoy to a limited extent in many states. The national banks have in some measure been able to meet this competition by absorbing or being absorbed by state banks with branches, but efforts to have branches legally authorized in their own communities have failed under the stout opposition of the country banks, both national and state.

The tendency toward branch banking, at least toward permission for national banks to establish branches in the communities in which they operate, is vigorous and increasing. The mention of it arouses the bitterest opposition from the small banks and their reasons are cogent and personal, but it may well be doubted if they will be able to withstand the continuing pressure which represents not the loose desire of city banks for branches but an apparently irresistible economic trend.

The opening of the way for their exercise of trust company powers has not put the national banks on exactly even terms with the state institutions. The latter, under the amendments of the Reserve Act recently approved, may enter the reserve system not only without the surrender of their most prized privileges, but they will have some denied the national banks by the reserve law itself. It seems only a question of time—and perhaps a short time—when banks will be classified not as national and state banks, but as members and non-members of the reserve system. If the state banks in considerable numbers flock to the reserve system the tendency toward unification of banking powers will become more pronounced.

There have been many predictions that with the passage of the amendments to the Reserve Act the state institutions would indulge in a wild scramble for admission. The invitations to them have kept pace with the predictions. Their patriotism has been appealed to. It has been officially and volubly declared that they owe it to the country to lend their strength to the reserve system. The Council of National Defense was led afield that it might point out to the state banks their clear duty to subscribe to the reserve system as a war necessity. It did not appear that the Council of National Defense had any new or novel ideas in relation to the subject and there were some unkind enough to surmise that the Federal Reserve Board was using the Council of Defense as the medium through which some canned notions could be put out to the people.

It must be remembered that membership in the reserve system is on a wholly artificial basis. The national banks were forced in by law. Of about 20,000 state banks only forty-eight are members of the system. How many national banks have left the system the Comptroller of the Currency seems to have been at some pains to conceal. It is a good many more than forty-eight.

Under the conditions that obtain since the amendments to the Reserve Act were passed the appeal of the system to the state banks is much stronger. Under the development of war conditions the attractions will be more positive. Eventually the reserve system may reach the position of having members because membership is valuable and advantageous. This is, of course, a desirable eventuation that has not yet been attained.

Of the smaller banks many have maintained that membership in the reserve system is not only neither valuable nor advantageous to them, but a positive expense and annoyance. A stock argument is that the reserve funds on which they have always earned some return are no longer profitable, that connection with the reserve bank is inconvenient and that the general policy of the Reserve Board, and often of the reserve banks, is dictatorial and hostile. The smaller banks, as a rule, do not belong in the system. If they add something to it in the way of reserve and capital they get little of importance from it. The strength and integrity of the system will be finally determined, as all banking strength is determined, not by the number of member banks, but by the resources. Just now the smaller banks would rather have connections with city correspondents than with the reserve banks. Such relations are not so dignified and impersonal. The city banks would like to have the small banks as depositors. Such a relation between banks is natural. An approximation of it is found in England and countries with the branch bank system. The branches do not concern themselves particularly with the state of their balances with the central bank. They look to the parent institution. So the smaller banks in this country would prefer to have personal relations with correspondent banks. Such a development in a recognized form would stop the tendency toward branch banking, which will inevitably grow stronger if the small banks are denied the advantage of relationship with correspondent banks of their own choosing.

The development of the new forms of commercial paper and the increase in its production will have much to do with the determination of the future relations of small banks with reserve banks or with correspondents of their own selection. If the correspondent institutions can be assured of ample supplies of paper eligible for rediscount and a real commercial paper market is established, the small banks can be assured of protection without membership in the reserve system.

Such an outcome is not within the contemplation of those charged with the administration of the Federal reserve system. Their eyes are apparently fixed on the reserve item in the weekly report of the reserve banks. They measure the financial strength of the system by that item and to that item the country banks are large contributors. Perhaps they are too large contributors if the accumulated reserve resources are not of practical use to them.

What value the rediscount system is to the small banks has not yet been demonstrated. The final payment of reserves into the reserve banks may have the effect of

divorcing the country banks from their city correspondents, if the correspondent banks are indifferent about retaining the connections. In this respect the condition of the money market during the next few months will have an effect. Since the establishment of the reserve system money conditions have been easy. The rediscount privilege has been little more than a privilege—a recourse in the event of need. War and war loans are now influencing money conditions and the influence may be more than temporary. A new customer has come into the commercial field. This new customer has multifarious wants. With the enormously increased industrial activity that has resulted has come an increased quantity of currency. This increase will probably off-set the tendency to rediscount. The Liberty Loan had a passing effect and rediscounting was heavy before the subscription books had closed. The item of "discounted paper" increased nearly 105 millions during the week ending June 16, but the greater part of this was in fifteen-day loans, nearly half of which were against the security of treasury certificates of indebtedness.

Apparently out and out rediscounting is not yet popular with the banks. The fact that the reserve banks are playing larger parts is not particularly significant. As fiscal agents of the government they will be factors, but this is not closely related to the activities of the banks. The country banks have not yet accepted the fact that the reserve banks are institutions necessary to them. Whether or not they will do so will depend on their city correspondents and the willingness of the latter to resign in favor of the reserve institutions.

The psychology of the situation may not be considered without reference to the check collection problem. As recently amended, the provision of section thirteen is as difficult of interpretation as ever. It is clear, however, that exchange may not be charged against the reserve banks and that those who deposit checks in banks will insist that collection be made through the free channel. It goes without saying that the country banks will resent this, as they have resented it ever since the Reserve Act was first considered. The check collection scheme can be measured only in terms of the future action of the small banks whose profits have been affected. Certainly their liking for the reserve system and their desire to enter it will not be increased. Whether their resentment will extend to liquidation and withdrawal from the system by the national banks cannot be foretold, but it is pretty plain that the smaller state institutions will not be more eager to enter the system.

An effect of the check collection amendment as interesting as that on the profits of the banks is on the popularity of the Reserve Board. The country banks are practically unanimous in the belief that the Board is a hostile organization. Respect for the ability of the members of the Board and their breadth of outlook was not increased by the intrigues incident to the defeat of the Hardwick amendment. The delay in the conference committee, after both houses of Congress had approved the Hardwick amendment, while a campaign of opposition was fomented among merchants and associations of business men, savored of conspiracy to secure a reversal of the decision and the situation was not helped by the methods used when the conference report finally came up for consideration. It was clearly demonstrated that the success of the banks and the feelings of the bankers was a matter

of far less importance than the profits of the mail order houses and the big merchants—that the Board was willing to subscribe to the policy of forcing the banks to give something for nothing.

In any event, the predicted flocking of state banks to the reserve system will not be more so because of the failure of the Hardwick amendment.

The events of the month have, therefore, had a decided tendency to change the trend of banking and banking affairs. The influences exerted will begin to be noticeable in results and there will be ample opportunity to study conditions in the light of these influences. Every banker will do well to study them carefully and take account of their broader significances rather than the particular effect they may have on his own institution.

NEW RESERVE REQUIREMENTS

By the terms of section 19 of the Federal Reserve Act as recently amended the required reserves of all member banks will be 3 per cent. against time deposits; against demand deposits country banks will keep 7 per cent., reserve city banks 10 per cent., and central reserve city banks 13 per cent. The whole amount of these required reserves must be maintained with the Federal reserve banks.

Superficially this is a material reduction in reserve requirements; practically it may not be a decrease at all. In addition to the amounts to be kept with the Federal reserve banks, each bank will have to carry a sufficient amount of currency to meet the expected demand of its customers. This amount will vary according to the business of the bank and its distance from the centers where currency may be obtained. This is the comparative aspect of the case. It has not yet been determined what reserve requirements should be absolutely. Under an approximation of ideal conditions there would be no such thing as required reserve. Banks would maintain balances with the reserve institution sufficient to insure their stability. As it is, banks that are members of the reserve system will soon learn to watch their balances with jealous care. In this respect the amendment denotes progress, and it is more than likely that, with the predicted development of the check collection system, balances with the reserve institutions will run well beyond the amount required. The relations of members with the reserve banks will, therefore, have a tendency to become more intimate. The amount of reserve fixed is, therefore, of less importance than the extension of the relationship between the member banks and the reserve banks. It is more than likely that many banks will lose sight of the percentage of demand deposits actually required as reserve because it will be to their advantage to carry a much larger balance constantly with the reserve bank.

RESERVE AND CENTRAL RESERVE CITIES

In fixing the new reserve requirements the distinction between country banks and reserve city and central reserve city banks is still maintained and the amount of reserve required is varied accordingly. Henceforth all reserve must be carried with the Federal reserve banks. Balances with banks in reserve cities and central reserve cities have lost their significance, and with this change the

necessity for having reserve and central reserve cities has also been lost. Why should the banks in New York or Chicago or St. Louis be required to maintain reserves of 13 per cent. when the banks of San Francisco, Atlanta, Minneapolis and Dallas are required to maintain but 10 per cent.? The New York banks have no other and no different responsibility in regard to the financial stability of the country than have the banks at San Francisco. The banks of Detroit are obligated to carry a 10 per cent. reserve, but they have no obligations or responsibilities greater than the banks of Toledo, which are required to maintain a reserve of but 7 per cent.

The old banking fictions die hard. We have had reserve cities and central reserve cities for a good many years. The only apparent reason for retaining the designations now is their honorable antiquity. The meaning of the titles has been lost.

WAR EXPENDITURES

Congress has authorized the Secretary of the Treasury to borrow against the credit of the United States \$7,000,000,000. Of this amount \$2,000,000,000 are to take the form of short-term Treasury certificates of indebtedness. One-half of these have already been issued and are exchangeable for Liberty Loan bonds. This \$1,000,000,000 represents the greater part of the war expenditures of the United States for May and June.

The first issue of bonds for \$2,000,000,000 has been subscribed and there remains of the authorized amount \$3,000,000,000. The Secretary of the Treasury has stated unofficially that this will be the amount of financing necessary up to January 1 next.

The last installment against the first issue of Liberty Loan bonds is payable August 30 next. This country has undertaken to extend to its Allies a credit of \$400,000,000 a month. It is obvious, therefore, that the proceeds of the first issue of bonds will have been spent by the time the last installment is due. It is a reasonable expectation, therefore, that the issue of \$3,000,000,000, or a considerable portion of it, will be announced in August and the sale of the bonds will continue through September. It is more than likely that the balance of the whole amount of bonds authorized will be asked for in the next announcement. Experience has shown that it is better not to go too often to the people for funds and if the \$3,000,000,000 are necessary to carry the war along until the first of the year they might better be asked for in one block.

FLOATING THE NEXT BOND ISSUE

Soon after the subscription books for the Liberty Loan were closed on June 15 the opinion was frequently expressed that the work of the next loan was half done. By this it was meant that the efforts to educate the people had attained a degree of success which would be lasting. It is very doubtful if this view of the situation is correct. If the next loan is for a larger amount the work necessary for its successful flotation will be larger. More people will have to be reached and induced to subscribe. Nothing is to be gained by blinking the fact that the big corporations and the rich subscribed liberally to the first bond issue. Not all of them will be able to duplicate their first subscription. Many thousands of people bought their bonds on some partial payment plan. Not infrequently

the plan provides for weekly payments over a period of nearly a year. Many others borrowed against the security of the bonds and they will not have discharged their entire obligations by the time the next loan is announced. It is obvious that thousands of subscribers to the first loan have exhausted their resources in this direction for the time being. It will be necessary, therefore, to secure new bond customers, to carry the gospel of the government's financial needs to millions of people who do not yet realize the necessity for their assistance.

If the preliminary work for the next loan is properly organized and prosecuted there should be not less than 12,000,000 subscribers to the loan which will soon be announced.

LIBERTY LOAN WORKERS

The General Committee of the American Bankers Association, to which was assigned the task of assisting the banks in the sale and distribution of Liberty Loan bonds, takes this occasion to express its gratitude for the assistance and co-operation of the members of the War Loan Committees. Particularly the Committee's thanks are given to R. F. Ayers of Hanff-Metzger, Inc., for untiring work in preparing plans of operation and advertising copy, to Gilbert B. Bogart for invaluable services and to E. B. Wilson, E. T. Tomlinson, Fred W. Ellsworth, Harry Rascovar, M. De W. Hanrahan and H. D. Robbins for advertising advice and assistance. A. D. W.

ALLOTMENT OF LIBERTY LOAN BONDS

The 50 per cent. oversubscription of Liberty Loan bonds, totaling \$3,035,226,850, made necessary a considerable scaling down of large subscriptions. An official

announcement by the Treasury Department gave the following plan of allotment so as to bring the total within \$2,000,000,000:

<i>Amount of Subscription</i>	<i>Total Subscribed</i>	<i>Per Cent. Allotted</i>	<i>Total Allotted</i>
Up to and including \$10,000.....	\$1,296,684,850	100 per cent.	\$1,296,684,850
Over \$10,000 and up to and including \$100,000.....	560,103,050	60 per cent., but not less than \$10,000	336,061,850
Over \$100,000 and up to and including \$250,000.....	220,455,600	45 per cent., but not less than \$60,000	99,205,000
Over \$250,000 and up to and including \$2,000,000.....	601,514,900	30 per cent., but not less than \$112,500	184,381,500
Over \$2,000,000 and up to and including \$6,000,000.....	234,544,300	25 per cent., but not less than \$600,000	58,661,250
Over \$6,000,000 and up to and including \$10,000,000.....	46,674,150	21 per cent.	9,801,500
\$25,000,000.....	50,000,000	20.22 per cent.	10,110,000
\$25,250,000.....	25,250,000	20.17 per cent.	5,093,650
Total.....	\$3,035,226,850		\$2,000,000,000

The above scheme of allotment is of particular interest in New York, where a great many large individual subscriptions were made. John D. Rockefeller, for example, subscribed \$15,000,000 and will receive a little over \$3,000,000. Samuel Untermyer will receive only \$600,000 on his subscription of \$2,000,000; so will Mrs. Russell Sage and Mrs. E. H. Harriman on their respective applications for the same amount. James A. Farrell asked for \$300,000

and will get \$90,000; the First National Bank, which asked for \$25,000,000 worth for its own account will receive only about \$5,000,000; the same figures apply to the United States Steel Corporation. Quite a number of individual subscriptions of \$1,000,000 each will be cut to \$300,000. William Rockefeller, who asked for \$2,500,000 worth, will have to be content with only \$625,000. Many other individuals must submit to similar reductions.

BUSINESS FINANCE

In his work "Business Finance" the author, William H. Lough, deals with the practical problems of private business. He begins with an "exposition of the essential principles of all sound financing" and considers in turn the forms of security issues, methods of raising capital, the investment of capital and financial mismanagement.

The volume should be helpful to organizers and directors of business concerns, bankers, bond dealers and other financial men investigating the financial management of enterprises or professional men called upon to advise as to financial questions. New York, Ronald Press Co., 1917, \$3.

How British Finance Met the Shock of War

BY WILLIAM WELTON HARRIS

(Book rights reserved)

This treatise reviews in brief form the financial troubles Great Britain had to meet in 1914, just before and during the early months of the Great War, which began on August 1. It considers, too, the remedial measures taken at once and those adopted up to the reopening of the London Stock Exchange, January 4, 1915.

It is believed that the experience of the British Government, the Bank of England, the Stock Exchange and of British bankers will furnish material of value to American statesmen and financiers, in their handling of problems that may arise out of our state of war with Germany.

I—BREAKING OF THE STORM

THE double murder, in Sarajevo on June 28, of the heir to the Austrian throne and his morganatic wife produced only a slight shock in English financial circles. The events of July piling rapidly one upon another forced a realization that disaster was impending, but so far as special financial preparations are concerned, the war came like a thunderbolt from a clear sky.

Austria's ultimatum to Servia was given July 24. On July 25 there was something like a panic on the London Stock Exchange and on continental bourses.

On July 25 it was decided in Vienna to close the Stock Exchange for the following days, and at the same time to raise the discount rate from 4 to 5 per cent. The Bourses of Amsterdam and Brussels were likewise closed. In the course of the next few days business in Paris was carried on in the "Parquet," only while the Coulisse was closed. The Stock Exchange of Hamburg did not open on July 30 (Thursday) and in Berlin business was only done on a cash basis.

A continental torrent of securities was flooding London and New York, with enormous declines in these markets.

Important Financial Facts and Dates

The next seven days saw the climax and form a most important series of both political and financial dates. The bank rate (of the Bank of England) had been raised on July 30 (Thursday) from 3 to 4 per cent., and on Friday it went to 8 per cent., the next day going to the record figure 10 per cent.

The Stock Exchange closed on July 31 (Friday) and within an hour the New York Exchange followed suit, neither Exchange being able to absorb the flood of securities offered for sale by the continent.

The war opened August 1 (Saturday), England declared war August 5 (the following Wednesday).

A Bill Moratorium (special) was declared August 3 (Monday), which was a bank holiday. Tuesday, Wednesday and Thursday were also made bank holidays.

A General Moratorium was declared August 6 (Thursday), authorizing debtors to postpone for one month the payment of any debt contracted before August 4. The period was later extended twice, a month at a time. The first general settlement day thereafter was November 18.

The first public manifestation of fear began on Friday, July 31, for certain banks had begun to refuse gold payments, giving their customers silver or Bank of England notes instead. People who wanted currency for the week-end and the coming bank holiday (Monday) congregated at the Bank of England in unusual numbers and soon a run developed.

The Bank's reserve was reduced within a week to 14½ per cent. of its liability as against 40½ per cent. the week before. (Its traditional minimum of safety is 40 per cent.) The cash loss exceeded £10,000,000.

II—THE INTERNAL DIFFICULTIES

The general financial troubles that resulted were not due to any internal weakness of the English banking system. No credit system could have withstood such a storm. For credit depends upon confidence in processes of civilization, and this confidence received many rude shocks.

Lack of confidence on the part of the public was shown first by a rush of the wealthier classes for food supplies. This caused a rise in prices which might have been serious for the poorer classes had it been continued long.

Next people began to withdraw money from the banks for hoarding.

The troubles that followed may be classified broadly as troubles of Internal Finance and troubles of External Finance. Let us see

- (a) What these troubles were;
- (b) What measures were taken;
- (c) Why these measures were taken.

Popular Fears

When the public is disturbed by a threat of war people take it into their heads to withdraw money from their banks, and if only enough people follow this practice—of taking money home and hoarding it—the strongest banks come to the end of their supply of cash, and then it becomes necessary to lend them a fresh stock.

To provide a fresh stock of cash for bankers, the old-fashioned device was a suspension of the Bank Act, which restricted the right of the Bank of England to issue notes beyond a certain amount (£18,450,000), except against gold held in its vaults. Above that limit every £5 note must have £5 worth of gold behind it.

When times are not ordinary it becomes necessary to increase the number of bank notes, in the first place because they are wanted to take the place of the cash that the frightened public has taken out and hoarded, and in the second because in times of panic many people refuse to accept payment in checks.

The banks in turn began refusing gold. Instead of saying to the depositor who wanted money "How will you take it, in notes or gold?" they kept the gold and offered notes or silver. The notes in turn were presented at the Bank of England for gold.

People began to talk of the government's permitting the Bank of England to suspend the Bank Act of 1844. This would permit the Bank to issue notes beyond the legal

limit of £18,450,000. In previous crises this had been done in order to supply an ample amount of currency. The notes are legal tender.

The question arises at this point, "Why did the banks refuse to pay gold?"

A number of circumstances had led to this. Any bank balance sheet will show that its current and deposit accounts—which it owes to customers and has to pay on demand—are its chief liability. They must be met if the bank is to remain solvent. In their assets they have cash in hand, cash in the Bank of England, cash at call or short notice, loans and advances, bills discounted and investments. In normal times these are more or less liquid, but at this particular time things had happened which prevented them from realizing cash on their assets quickly.

The Stock Exchange having closed, collateral could not be sold. Their discounted bills, which are usually good and quick assets, had become either doubtful or at any rate likely to be slow of payment.

The Stock Exchange had been forced to close by reason of the flood of sales from the continent in part, and in part because it was suspected that Germany by sale of securities was drawing cash from London.

No Way to Pay

In the last days of July the whole machinery of foreign exchange had broken down, and the meaning of this uncomfortable event was that *foreigners who owed money to England could not with the best will in the world send it, because the ordinary means of doing so no longer existed.*

The breakdown of exchange and the consequent inability of foreign debtors to remit to England, made the value of bills of exchange a much more doubtful question than it had ever seemed to be before. *If these correspondents abroad were unable to remit, the accepting houses and the banks would have to meet the bills accepted by them out of their own assets.*

It was an appalling position for a banker to find himself in, with the chance before him that many of his customers would want their money and, on the other hand, the knowledge that all the Stock Exchange securities that he held either as investments or as collateral were unsaleable; that the bills of exchange in his portfolio might or might not be met at maturity, and that the bills of exchange which he had himself promised to pay might have to be met out of his own resources.

Why Credit Failed

All these things happened because a credit system can be worked on credit only, and *credit rests on the belief that trade will go on as usual.* When money lenders all suddenly decide to turn their loans into cash the only possible result is the creditors and debtors alike are put in the same boat.

If all the bankers, when times are bad, join in putting their customers into a hole they are pulled into the hole themselves.

The British bankers did this very thing and the government had to pledge its credit, at taxpayers' risk, that if the ordinary processes of exchange were resumed it would stand any loss, knowing full well that if they were resumed there would be no loss, or at any rate no great loss.

Such, then, was the internal position of the credit machine at the beginning of August.

The banks were also calling in large amounts from the bill brokers, who had to borrow them from the Bank of England.

During the two weeks that ended on August 5, or rather during that part of them which was not covered by the prolonged bank holiday, the Bank of England added 31½ millions to its holding of "other securities," representing roughly the amount that it had to lend to borrowers (many of them bill brokers) who had had money called in by their bankers, and had lost 16 millions in notes and sovereigns that had been taken from it for circulation, or hoarding, at home, and its reserve, which has seldom in recent years been allowed to fall below £20,000,000, had sunk below £10,000,000.

A moratorium was declared by proclamation on August 6, authorizing debtors to postpone for one month the payment of any debt contracted before August 4. This period was later extended for two more months.

Pro and Con of the Moratorium

Among the arguments against a moratorium was that it was a two-edged sword, useful possibly to one class of the community, but equally disastrous to the other; difficult to institute, difficult to abolish. It was argued, too, that a moratorium would render re-establishment of normal trade difficult.

The reasons urged for the moratorium were that it would give time for financial adjustment, especially receipt of payment on bills of exchange, and second, that a supply of new emergency currency was needed and it would not have been fair to expect the banks lacking this emergency currency to open except under the protection of a moratorium. Time was needed to manufacture the new emergency currency.

How Trouble Might Have Been Avoided

This evil might have been done away with by the prompt action of the government in stating publicly, as was done by Mr. Lloyd George in Parliament, that the government was taking immediate steps to provide additional currency, and that any one who hoarded money was guilty of wicked cowardice. This statement clearly showed that the government was behind the banks, and there is good reason to believe that the position of the banks would thereby have been secured without the shelter of a moratorium. If the run had continued for a few days the banks could have met it with the new currency provided, as soon as it was ready.

But—an important "but"—the currency was not ready! If it had been it might never have been wanted. The fleet was ready, and the expeditionary force was ready. The financial machinery was not.

Part of the machinery was a supply of notes to take the place of gold currency, if the evil disease of hoarding should break out, as was likely. Consequently, whether the evil was met by a suspension of the Bank Act or by an issue of government notes, a supply of £1 notes and 10s. notes ought to have been in existence.

Suspended the Bank Act

What happened was that the government suspended the Bank Act and then made this suspension unnecessary

by issuing notes itself. The Bank of England did not avail itself of the suspension, but a new currency made its appearance, consisting of £1 notes and 10s. notes. These notes were issued to the banks, the amount that they might take being limited to 20 per cent. of their liabilities on deposit and current accounts. This limit gave the banks the right to take about 225 millions. They actually took less than 13 millions.

The mere knowledge of these currency facilities being available gave confidence. Postal orders were made legal tender for the time being. Thus the banks were behind a triple line of fortifications—the moratorium, the suspension of the Bank Act and the new currency.

The Courts (Emergency Powers) Act

One other measure of government relief was the institution on August 31, 1914, of the Courts (Emergency Powers) Act. This gave the courts power to stay or defer execution against a debtor *who, owing to circumstances directly or indirectly attributable to the war, was unable to make immediate payment.* The period and conditions were entirely within the discretion of the court. This applied to debts due on or before August 4. (See "The City, 1914-1915," by H. C. Sonne, pp. 36 and 37.)

In general, the measures met most of the internal problems.

III—ON THE STOCK EXCHANGE

The Stock Exchange had its own special difficulties which the closing on July 31 was not sufficient to solve. The Exchange Committee was in almost continuous session from the time the trouble opened until after the first settlement day, and had frequently meetings for months thereafter.

Minimum Prices

The Stock Exchange Committee (of London) promulgated on July 31 a list of minimum prices based largely on the closing prices of July 30, at which members might trade in certain securities among one another for cash (no time or options allowed).

Americans

The minimum prices on Americans were established on an English parity with the minimum prices established in New York. Modifications were made from time to time following modifications made in New York. (See *Statist*, September 19, 1914.)

Postponing Settlement

On August 7 the Stock Exchange Committee gave notice that the section of the order of July 31 commanding members to "make arrangements to pay for securities undelivered on the end-July account" was cancelled. This amounted to a *Stock Exchange moratorium on settlements.*

In general settlement day was held in abeyance. Five fortnightly settlements, three consol settlements and several other special settlements were passed during the moratorium period, but alien accounts were held to settlement. The first general settlement day after the moratorium was on November 18 and was satisfactory.

Information on State of Accounts

On August 31 the Stock Exchange Committee demanded from all members *complete statement of their accounts.*

Stock Exchange Defaults

Previous to the war all members unable on settlement day to fulfill engagements were, under the rules, publicly posted as "defaulters" and were barred from entering the Exchange; effective upon the establishment on November 18 of the first general settlement day, it was arranged with a special committee to take up each case on its merits. If satisfied that the member was suffering bona-fide misfortunes due to the war and indicating ability to fulfill his engagements later on, he would be put under "temporary suspension" until his position was settled.

Reopening the Stock Exchange

On December 23, 1914, the Stock Exchange Committee published the regulations under which the Exchange would reopen on January 4. Among the chief regulations were these:

- (a) Only British born members or clerks admitted, with certain exceptions for naturalized persons.
- (b) Certain minimum prices fixed during the time the Exchange was closed were to stand during January subject to alterations made only with the approval of the Treasury.
- (c) American shares to be dealt in at prices not below the English equivalent of the closing prices in New York of July 30, or as subsequently modified.
- (d) All bargains to be for cash, and not to be continued from day to day.
- (e) No time bargains or options allowed except in connection with existing contracts.
- (f) No dealings in new issues without Treasury approval.
- (g) No member allowed to bid for or offer stock openly in the market.
- (h) Full record and publicity as to details of bargains.
- (i) No arbitrage business.

There were certain other restrictions to prevent benefit accruing to "the enemy." These were necessary to prevent the enemy selling out in London, through neutrals.

Ordinary business was soon resumed.

Treasury Orders Concerning New Issues of Capital

On January 19, the Treasury made the announcement concerning new issues of capital, declaring that no fresh issues of capital should be allowed *without Treasury approval.* To secure Treasury approval it would be necessary to make clear,

- (1) That the undertaking was advisable in the national interest.
- (2) That issues or participation in issues for undertakings in the British Empire over seas was under urgent necessity, or other special circumstances demanding it.
- (3) New issues for undertakings outside the British Empire would not be allowed.

NOTE.—The above restrictions were not insisted upon where issues were required for the renewal of Treasury Bills or other short instruments held in England and falling due.

IV—THE EXTERNAL PROBLEMS

The external troubles were much more difficult and of much greater extent, as they had to do with England's world-wide commerce.

The first fear that every one felt was that a drain would be made upon the country's supply of gold.

The worst that can happen to a country's banking system on the outbreak of war is that, at the time when its home customers are likely to be troubling it with a run, external demands on its gold store may seriously weaken it. Attacked on both sides it may have to put up its shutters. This problem is evaded in most countries by arrangements which enable their banking systems to refuse to part with their gold.

This fear happily proved without foundation for several reasons. The principal one was the strength of England's position as the great money-lender of the world. Other countries had to remit such vast sums to England that exchanges ran strongly in her favor and the pull on gold was all the other way.

Insurance and Freight

Then, too, when there is a chance of war, freight and insurance are much higher than in normal times, and the loss on importing gold would be all the greater. This helped to prevent a foreign run on London's gold. As soon as the trouble began to brew all the exchanges went strongly in favor of London, with the single exception of the Paris exchange.

It is true that during the week before the war some sovereigns went abroad, in spite of the exchanges, to Egypt, Belgium, Gibraltar, Switzerland, "The Continent" (probably France), and Malta.

But it is more than probable that the beginning of war, with its high rates for freight and insurance, would have stopped these shipments even without the moratorium. Against these withdrawals London received large amounts from New York and from India.

During the moratorium period, the Bank of England's stock of gold, including what it held in Canada and South Africa, was increased by 52½ millions through receipts from abroad. No gold went abroad from it during that period. England, however, in this crisis was making demands upon her foreign debtors for payment.

Britain's Strength a Hindrance

But an unexpected and paradoxical difficulty arose from the very strength of London's position. Other countries owed her so much and had so little to pay it with, that with the best will in the world they for some time could not pay.

When England called on other nations to pay the other nations had a relatively small amount of outstanding claims on England to set against what they owed her. Being unable to ship goods or gold with the usual facilities, freight rates and insurance both being high, or to sell English securities, they were helpless.

Mr. Hartley Withers comments thus on the situation that resulted:

The chief reason for the suddenness and fullness of the blow that fell on London was nothing else but her own overwhelming strength. She was so strong and so lonely in her strength that her strength overcame her.

She held the rest of the world in fee with so mighty a grip that when she said to the rest of the world, "Please pay what you owe me," the world could only gasp out, "But how can I pay you if you don't lend me the wherewithal?"

If there had been any rival who could have taken London's mantle from her shoulders, and come forward as the provider of credit, London could then have called in her debts. But there was none. The machinery of credit broke down in both hemispheres; London, as its center, had to be given time to arrange matters under the new conditions.

After all, you cannot have credit without civilization, and at the beginning of last August civilization went into the hands of a receiver. * * *

Credit depends on the assumption that goods produced will come to market and be sold and that securities that are based on the earning power of production will fetch a price on the exchanges of the world. War, on the smallest scale, weakens this assumption with respect to certain goods and certain securities; if its scale is big enough it makes the assumption so precarious that credit is shaken to its base.

The fact is that the machinery of exchange was utterly broken down. Payments could not be immediately made. The banks, fearing the ultimate demand on their own assets, could not carry the burden of foreign bills.

The Use of Bills

Purely commercial bills of exchange are the basis of only part of England's international exchanges. In actual practice many bills are drawn on England without any shipment of goods to England. The goods go to some other country, and the importer in that country pays the English holder of the bill of exchange either directly or through a bank.

All over the world a claim on London can always be turned into gold in ordinary times. The sterling bill, therefore, has become to a great extent a currency of international commerce.

Besides all these bills drawn against goods that never come to England there is a large number of bills drawn against no shipments of goods at all. Such bills are drawn on London banks by foreign bankers who have deposited securities as collateral for credit. Such bills are renewed, when due, by a fresh set being drawn and accepted, and sometimes they are run for years. A credit of this kind amounts to a loan from London. Such bills are called "finance bills."

Lombard Street, during the crisis, had a sudden fit of virtue against finance bills, thus stopping the use of what had been a convenient medium of exchange, and making the situation still more difficult. There was no way to pay. There were no bills on London to be had in any of the chief financial centers except Paris. The machinery of exchange had broken down, because of the fear of the British banks or acceptance houses that their bills would not be met.

The government had to come to the rescue. It had to remove their fears by its guarantee against loss on such transactions. Such a step on the part of the government would save from ruin both banks, acceptance houses, bill brokers and all others having to do with foreign trade.

What the Bank of England Did

The Bank decided in these circumstances to lend acceptors money to pay bills as they fell due. The government in turn guaranteed the Bank against loss and declared a moratorium of one month, so that the acceptors might have time to get foreign remittances. This attended to the pre-moratorium bills.

But a new problem arose. Acceptance houses would buy no bills and the discount markets were at a standstill.

To meet the new problem the Chancellor of the Exchequer and the Bank of England announced on August 13 that the Bank would discount all approved bills accepted before August 4 without recourse to the holder, and the government agreed to guarantee the Bank of England against loss on discount of bills accepted prior to August 4.

The liability of the state on the enormous sum of around £350,000,000 was more apparent than real, for it had as safeguards:

- (a) The Bank of England's power of discrimination under the term "approved";
- (b) The strength of the banks and acceptance houses;
- (c) A charge of 2 per cent. above the bank rate for discounting bills.

Later the form of guarantee was varied by lending money to the acceptors at an extra rate of 2 per cent.

The Bank also gave the acceptors the opportunity of postponing payment (in case previous holders did not remit) "until further notice"—presumably until after the war—at the bank rate plus 2 per cent.

A Third Problem Arises

New bills, accepted after the moratorium, came forward slowly because acceptors feared that foreign customers would not be able to remit when the bills fell due.

So on September 5 the Bank of England announced that instead of merely buying bills accepted before the moratorium, it would lend money to acceptors to meet them, thereby relieving both holders and previous endorsers, agreeing not to claim repayment from acceptors until a year after the close of the war.

Joint stock banks also with the Bank of England behind them offered to advance to acceptors funds to pay their acceptances at maturity.

Lack of Finance Bills

But the purely commercial bills were still lacking in quantity enough to meet the needs. They were needed to grease the wheels of commerce, but the banks had begun "leaning over backward" in their austerity against these useful but now more or less disreputable instruments.

Each year of late England had been investing £200,000,000 abroad and to that extent she imported securities and exported goods, services and claims for interest.

This ceased and Lombard Street, by cutting down foreign credits too recklessly, helped to make finance bills scarce with resulting dislocation in trade and unemployment. Then, too, it made foreigners anxious to sell to England, and shy of buying from her. Part of Lombard Street's attitude was no doubt due to the fear that these foreign credits might be used to finance trade for the enemy.

But if the Bank of England had gone further in guaranteeing the acceptance business of the city (London's Wall Street) it would have helped foreign trade and

would have prevented the need of loaning funds to the acceptance houses to take up pre-moratorium bills, because they could immediately have enabled their customers (except enemy aliens) to provide funds to meet them by drawing new bills, which would, with a treasury guarantee, have enabled discount business to go ahead freely.

This austerity of Lombard Street in relation to finance bills lessened, however, during the end of the moratorium period and materially eased the situation.

V—ENDING THE MORATORIUM

Still other troubles had to be met before the moratorium could be terminated with safety. They had to do with

- (a) The exporters;
- (b) The cotton industry;
- (c) The Stock Exchange.

A committee was formed of representatives of the treasury, the Bank of England, the joint stock banks and the Chambers of Commerce. Claims for assistance could be made to this committee, which had power to authorize the bank of the applying merchant to accept his six months' bill, which would be guaranteed by the committee under certain restrictions, the ultimate loss, if any, to be borne 75 per cent. by the Exchequer and 25 per cent. by the accepting bank.

Owing to the great fall in the price of cotton advances were made in a similar manner to cotton merchants. Repayments were guaranteed 50 per cent. by the government, 25 per cent. by the Liverpool Cotton Association and 25 per cent. by the Liverpool banks.

Stock Exchange Lendings

As it could not be expected that securities could be realized upon advantageously at the expiration of the moratorium, it was decided on November 3, the day before the end of the moratorium, that the government provide assistance for those who had their funds locked up by lending to the Stock Exchange with the following added safeguards:

- (a) Joint stock banks undertook not to press for the payment of loans until a year after the war.
- (b) The government arranged with the Bank of England to advance to other lenders—except members of the Stock Exchange—60 per cent. of the value of the securities held against loans outstanding July 29 at the making-up prices of the end of July.
- (c) Loans to bear interest at 1 per cent. above bank rate with a minimum of 5 per cent. inclusive.
- (d) The Bank engaged not to press for payment of advances, corresponding to that of the joint stock banks, allotted for same, had elapsed.
- (e) The Stock Exchange not to open until consent and date had been granted by the Treasury.

These three relief schemes were not known to the public until the eleventh hour and helped to relieve difficulties.

In addition, foreign exchanges had turned in England's favor and big quantities of gold were accumulated at the Bank of England. Its reserve increased from £10,000,000 in August to £52,000,000 on December 30.

First Settlement Day

The first settlement after the moratorium was on November 18 and was gratifying.

VI—AMERICA'S POSITION

What was America's position in the world of finance in the troubles of the early war months?

When England was saying to all debtors "Pay me now what you owe me," and they could not, any rival able to come forward as the provider of credit could have assumed the financial throne and England could have called in her debts. But not even America was able—or felt able—to finance the rest of the world. Her accumulation of capital and machinery of credit were not then adequate.

New York, just at that time, was trying to pay—and did pay—her own debts of about \$80,000,000 coming due abroad. The nation, too, by concerted action among the banks of the country sent about \$100,000,000 gold to Ottawa, to adjust the unfavorable balance of exchange.

These facts greatly strengthened the confidence of the world in our financial strength and had much to do with preventing another flood of security sales when the New York Stock Exchange reopened its door November 28, leading the other great exchanges of the world in such a course.

But while it was the chance of a century, America was not quite ready to take it to the full. In spite of large gold exports before the war she still had a huge store, possibly \$2,000,000,000. By taking her courage in her hands and letting other countries draw on it London would have had more gold than she would know what to do with and New York would have had a big share of her world credit business. But she held on to it, fearful of internal troubles.

South American Business

She did, however, take over some of that business, in beginning to finance her own imports. Exporters from South America, unable to draw on London, drew on New York.

Some of this business she will doubtless keep. The establishment of American branch banks abroad and the rapid growth of acceptance business in New York, hardly known before 1915, assure that. It is estimated that we had fully \$100,000,000 of acceptances by the end of 1915. She had loaned hundreds of millions in South America,

Canada, Switzerland, the Scandinavian states and elsewhere. And she has rebought billions of our own securities held abroad.

She is steadily increasing the financing of foreign trade, owing to Lombard Street's shyness of new acceptance business. If the war goes on long it will be an important factor in the establishment of the hold of America on what was once almost a British monopoly.

America's Own Needs

Opposed to this is the need in America itself of the means of credit for the development of our own resources, sufficient to use up the greater part of our own accruing capital for years to come. But on the whole it seems safe to say that the United States will retain the foothold she gains in the Western hemisphere.

The future of our position as world's banker depends in an important degree, too, on our tariff laws and shipping laws, and the immediate prospect is not apparently bright for the needed changes in either.

The permanence of our present prosperity sometimes called "war prosperity" is another matter and outside the scope of this treatise. It may be said, however, that the matter is not so simple as the popular sobriquet would imply, nor by any means so hopeless. Involved in the problem are the questions of immigration, wages, tariffs, correct use of currency, prevention of inflation, etc., etc.

Acknowledgment

The author has gathered material for this treatise from many sources, among them files of *The Statist*, *The Economist*, *The Spectator*, *The London Times* (British publications), *The Times Annalist*, *The Evening Post Financial Review* and *The Banker's Magazine* (American). He has drawn freely from the most admirable book by Hartley Withers, "War and Lombard Street" (E. P. Dutton & Company), from "Financial Chapters of the War," by Alexander Dana Noyes (Charles Scribner's Sons), and from "The City—Its Finance 1914-1915," by H. C. Sonne (Effingham Wilson, London). In the latter volume may be found the full text of the bill moratorium and the general moratorium, the "Trading with the Enemy Act," with subsequent amendments and elucidations, the Courts (Emergency Powers) Act, the restrictions (government and Exchange) under which the Stock Exchange reopened, etc.

PRACTICAL BANKING EDUCATION IN ARGENTINA

Escuela Superior Nacional de Comercio, of Rosario, Argentina, a school maintained by the national government, operates a bank organized as a co-operative stock company. The faculty, students, employees, alumni of the school, parents and guardians of students, and children of members of the faculty may become shareholders. The stock has a par value of five pesos (paper), or \$2.12. The objects of the institution are to give the students practical banking experience and encourage thrift and industry. Administration is vested in a directorate composed of the principal of the school who is president, a professor who is vice-president, a professor who is manager, and nine students elected from the stockholders. Students are ap-

pointed by the principal to the working staff of the bank for short periods in order that many may gain an insight into the management of the bank.

In all essential business matters the principles of the Argentine commercial code govern. The institution is operated with all the formalities of a commercial bank. The transactions of the bank are principally with students, but also include advances on salaries of professors and employees and the operation of a supplies and stationery store. Net profits are divisible as follows: Reserves, 10 per cent.; student directors, 5 per cent.; relief and prize fund, 35 per cent.; dividends, 50 per cent.

The profits for 1915-16 were \$353.

REPORT OF COMMITTEE OF TWENTY-FIVE ON THE CLEARING AND COLLECTION PROBLEM

BY JEROME THRALLS, Secretary

Viewed from the angle of a citizen, the voyage of the Hardwick amendment on its way through the House and Senate resembled closely that of an unarmed American merchantman passing through the war zone.

The methods employed to mangle, destroy and cripple this amendment while on its way were equally as legitimate and friendly as is the submarine warfare to neutral shipping.

This amendment was designed to give banks the right to make a reasonable charge, in no case to exceed 10 cents per \$100 or fraction thereof, for the service and expense incurred in covering by remittance or otherwise checks and drafts presented through a Federal reserve bank.

This amendment passed the Senate by a decisive vote. Two efforts to get reconsideration in the Senate were defeated. Then, on May 10, 1917, a resolution was adopted by the House, on a vote of more than two to one, directing the managers on the part of the House to agree in conference to the substance of the Hardwick amendment.

There was committed to conference with the Hardwick amendment a number of vitally important amendments to the Federal Reserve Act, most of which had been introduced at the instance of the Federal Reserve Board, and had been rushed through the House and Senate, backed by the Banking and Currency Committees of both Houses, on the pretext of being a part of the preparedness and war financial program. These amendments, for the good of the nation, should have been reported out of conference within forty-eight hours. They were finally reported for print on June 9—one month later.

What had happened in the meantime? A nationwide campaign had been conducted by the Credit Men's Association, the mail-order houses, manufacturers, jobbers, wholesalers and merchants in the large centers for the defeat of the Hardwick amendment. These interests were ably assisted by the Federal reserve banks.

Material changes, which if literally interpreted will defeat the purpose of the amendment, were made in conference. When the bill was reported for consideration in the House, the point of order that the managers of the House had not obeyed instructions was overruled. This ruling, in the minds of many, is contrary to parliamentary precedents. The Administration pressure was turned on, and the report was accepted. It contained two modifications:

1. Providing that the charges are to be determined and regulated by the Federal Reserve Board.
2. Providing that no such charges shall be made against the Federal reserve banks.

The arguments in the Senate and House indicated a lack of understanding on the part of the legislators as to the underlying principles. It would appear that some supported the modified measure through fear that its defeat would cripple the entire Federal reserve system; others believed that through its adoption the country bankers were being given exactly what they wanted; others thought that in some mysterious way the modifications were necessary to insure the successful handling of the Liberty Loan of 1917; another strong factor was a letter from President Wilson, presented by Senator Owen.

The thanks and appreciation of the bankers of the entire country are due to Senator Thomas W. Hardwick of Georgia, Representative Louis T. McFadden of Pennsylvania, Representative Pat Harrison of Mississippi, and other Senators and Representatives who fought so earnestly for the principle that the banker, like any other American citizen, should have the right to demand and receive pay for any and all services that he renders.

Conditions did not permit the Hardwick amendment to receive consideration upon its merits. The fact still remains that the great majority of our lawmakers welcome information and may be depended upon to do what is fair and right if fully informed. It is the duty of bankers to see that the lawmakers are properly informed upon proposed measures affecting banking.

Certain Senators stated that the second modification to the Hardwick amendment was intended merely to relieve the Federal reserve banks from paying exchange and charging it up against their expense accounts, and would admit of charges being made against the Federal reserve banks, by them in turn to be assessed against the banks depositing the checks upon which the charges were made, with the Federal reserve banks.

The further activities of the Committee of Twenty-five will necessarily depend upon the interpretation that is placed upon the modified law by the Federal Reserve Board.

The resolution adopted by the American Bankers Association in convention at Kansas City September last directs and instructs the Committee of Twenty-five, cooperating with the Committee on Federal Legislation, to use its best efforts to get such amendments to the law and such changes in and modifications to the Federal reserve clearing and collection system as are necessary to make its operations fair and equitable to the banks and the public.

These instructions are binding, and the Committee will make every possible endeavor to carry them out.



Decision of Michigan Supreme Court as to Section 11, K, Reversed by U. S. Supreme Court

Mr. Chief Justice White delivered the opinion of the Court, which is as follows:

We are of opinion that the procedure resorted to was appropriate and that the state court was competent to administer relief, but we postpone stating our reasons on the subject until the merits have been passed upon.

The court below held that an Act of Congress conferring on national banks additional powers was in excess of the authority of Congress and was hence repugnant to the Constitution. — Michigan —. The correctness of this conclusion is in substance the sole question for decision on the merits.

Although the powers given were new, the principles involved in the right to confer them were long since considered and defined in adjudged cases. We shall first consider the leading of such cases and then, after stating this case, determine whether they are controlling, causing the subject not to be open for original consideration.

In *McCulloch v. Maryland*, 4 Wheaton 316, the bank had been incorporated by Congress with powers to transact business of both a governmental and of a private character. The question which was decided was the authority of Congress to grant such charter. Without undertaking to restate the opinion of Mr. Chief Justice Marshall, it suffices for the purpose of the matter now before us to say that it was held that although Congress was not expressly given the power to confer the charter, authority to do so was to be implied as appropriate to carry out the powers expressly given. In reaching this conclusion it was further decided that to recognize the existence of the implied power was not at all in conflict with Article I, section 8, clause 18 of the Constitution, providing that Congress should have power "To make all laws which shall be necessary and proper for carrying into execution the foregoing powers," since that provision did not confine the implied authority to things which were indispensably necessary, but on the contrary gave legislative power to adopt every appropriate means to give effect to the powers expressly given. In terms it was pointed out that this broad authority was not stereotyped as of any particular time but endured, thus furnishing a perpetual and living sanction to the legislative authority within the limits of a just discretion enabling it to take into consideration the changing wants and demands of society and to adopt provisions appropriate to meet every situation which it was deemed required to be provided for. In fact the rulings which we have stated were all summed up in the following passage which ever since has been one of the principal tests by which to determine the scope of the implied power of Congress over subjects committed to its legislative authority:

"We admit, as all must admit, that the powers of the government are limited, and that its limits are not to be transcended. But we think the sound construction of the constitution must allow to the national legislature that discretion, with respect to the means by which the powers it confers are to be carried into execution, which will enable that body to perform the high duties assigned to it, in the manner most beneficial to the people. Let the end be legitimate, let it be within the scope of the constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consistent with the letter and spirit of the constitution, are constitutional." p. 421.

In *Osborn v. Bank*, 9 Wheaton 738, where substantially the subject was presented in the same form in which it had been passed upon in *McCulloch v. Maryland*, yielding to the request of counsel, the whole subject was re-examined and the previous doctrines restated and upheld. Considering more fully, however, the question of the possession by the corporation of private powers associated with its public authority and meeting the contention that the two were separable and the one, the public power,

should be treated as within and the other, the private, as without the implied power of Congress, it was expressly held that the authority of Congress was to be ascertained by considering the bank as an entity possessing the rights and powers conferred upon it and that the lawful power to create the bank and give it the attributes which were deemed essential could not be rendered unavailing by detaching particular powers and considering them isolatedly and thus destroy the efficacy of the bank as a national instrument. The ruling in effect was that although a particular character of business might not be when isolatedly considered within the implied power of Congress, if such business was appropriate or relevant to the banking business the implied power was to be tested by the right to create the bank and the authority to attach to it that which was relevant in the judgment of Congress to make the business of the bank successful. It was said: "Congress was of opinion that these faculties were necessary, to enable the bank to perform the services which are exacted from it, and for which it was created. This was certainly a question proper for the consideration of the national legislature." P. 864.

As the doctrines thus announced have been reiterated in a multitude of judicial decisions and have been undeviatingly applied in legislative, and enforced in administrative action, we come at once to state the case before us to see whether such doctrines dispose without more as a mere question of authority of the subject under consideration.

Section 11(k) of the Act of Congress approved December 23, 1913, establishing the Federal Reserve Board (38 Stat. 251, 252, c. 6), gives to that board authority "To grant by special permit to national banks applying therefor, when not in contravention of state or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe."

The First National Bank of Bay City having obtained the certificate required began the exercise of the powers stated. Thereupon certain trust companies which under the laws of Michigan had the authority to do the same character of business petitioned the Attorney-General of the state to test the right of the national bank to use the functions on the ground that its doing so was contrary to the laws of the state of Michigan and that the action of the Federal Reserve Board purporting to give authority was in contravention of the Constitution of the United States. The Attorney General then, on the relation of the trust companies, commenced in the Supreme Court of the state a proceeding in the nature of *quo warranto* to test the right of the corporation to exercise the functions. The bank in defense fully stated its Federal charter, the rights given by the Act of Congress and the action of the Federal Reserve Board taken thereunder. The Attorney General demurred to this defense, first, because Congress had no power to confer the authority which was called in question; second, because if it had the power, it was without the right to delegate to the Reserve Board the determination of when it should be used; and third, because the exercise of the powers was in contravention of the laws and authority of the state and the Reserve Board therefore under the act had no power to grant the certificate.

The case was heard by the full court. In an opinion of one judge which, it would seem, was written before the opinion of the court was prepared, it was elaborately reasoned that the exercise by a national bank of the functions enumerated in the section of the Act of Congress under consideration would be contrary to the laws of the state and therefore the Reserve Board under the terms of the Act of Congress had no power to authorize their exertion. The opinion of the court, however, fully examining the grounds thus stated and disagreeing with them, expressly decided that corporations were authorized by the state law to perform the functions in question and

that the mere fact that national banks were Federal corporations did not render them unfit to assume and perform such duties under the state law because the mere difference existing between the general administrative rules governing national banks and state corporations afforded no ground for saying that it would be contrary to state law for national banks to exert the powers under consideration. The authority conferred by the Act of Congress and the rights arising from the certificate from such point of view were therefore upheld. Looking at the subject, however, from a consideration of the legislative power of Congress in the light of the decisions in *McCulloch v. Maryland* and *Osborn v. Bank* and recognizing that it had been settled beyond dispute that Congress had power to organize banks and endow them with functions both of a public and private character, and in the assumed further light of the rule that every reasonable intent must be indulged in in favor of the constitutionality of a legislative power exercised, it was yet decided that Congress had no authority to confer the powers embraced in the section of the act under consideration and hence that the section was void. The court following its reference to *McCulloch v. Maryland* and *Osborn v. Bank* and to passages in the opinions in those cases upholding the rightful possession by the bank of both public functions and private banking attributes, stated the grounds which led it to conclude that the rulings in the decided cases were distinguishable and therefore not controlling. It said:

"But in the reasoning of the judges, in the opinions to which I have referred, I find, I think, a conclusive argument supporting the proposition that Congress has exceeded its constitutional powers in granting to banks the right to act as trustees, executors and administrators. If for mere profit it can clothe this agency with the powers enumerated, it can give it the rights of a trading corporation, or a transportation company, or both. There is, as Judge Marshall points out, a natural connection between the business of banking and the carrying on of Federal fiscal operations. There is none, apparently, between such operations and the business of settling estates, or acting as the trustee of bondholders. This being so, there is in the legislation a direct invasion of the sovereignty of the state which controls not only the devolution of estates of deceased persons and the conducting of private business within the state, but as well the creation of corporations and the qualifications and duties of such as may engage in the business of acting as trustees, executors and administrators. Such an invasion I think the court may declare and may prevent by its order operating upon the offending agency."

But we are of opinion that the doctrine thus announced not only was wholly inadequate to distinguish the case before us from the rulings in *McCulloch v. Maryland* and *Osborn v. Bank*, but on the contrary directly conflicted with what was decided in those cases, that is to say, disregarded their authority so as to cause it to be our duty to reverse for the following reasons:

1. Because the opinion of the court instead of testing the existence of the implied power to grant the particular functions in question by considering the bank as created by Congress as an entity with all the functions and attributes conferred upon it, rested the determination as to such power upon a separation of the particular functions from the other attributes and functions of the bank and ascertained the existence of the implied authority to confer them by considering them as segregated, that is, by disregarding their relation to the bank as component parts of its operations—a doctrine which, as we have seen, was in the most express terms held to be unsound in both of the cases.

2. Because while in the premise to the reasoning the right of Congress was fully recognized to exercise its legislative judgment as to the necessity for creating the bank including the scope and character of the public and private powers which should be given to it, in application the discretion of Congress was disregarded or set aside by exercising judicial discretion for the purpose of determining whether it was relevant or appropriate to give the bank the particular functions in question.

3. Because even under this mistaken view the conclusion that there was no ground for implying the power

in Congress was erroneous because it was based on a mistaken standard, since for the purpose of testing how far the functions in question which were conferred by the Act of Congress to the bank were relevant to its business or had any relation to discrimination by state legislation against banks created by Congress it considered not the actual situation, that is, the condition of the state legislation, but an imaginary or non-existing condition, that is, the assumption that so far as the state power was concerned the particular functions were in the state enjoyed only by individuals or corporations not coming at all, actually or potentially, in competition with national banks. And the far-reaching effect of this error becomes manifest when it is borne in mind that plainly the particular functions enumerated in the statute were conferred upon national banks because of the fact that they were enjoyed as the result of state legislation by state corporations, rivals in a greater or less degree of national banks.

4. In view of the express ruling that the enjoyment of the powers in question by the national bank would not be in contravention of the state law, it follows that the reference of the court below to the state authority over the particular subjects which the statute deals with must have proceeded upon the erroneous assumption that because a particular function was subject to be regulated by the state law, therefore Congress was without power to give a national bank the right to carry on such functions. But if this be what the statement signifies, the conflict between it and the rule settled in *McCulloch v. Maryland* and *Osborn v. Bank*, is manifest. What those cases established was that although a business was of a private nature and subject to state regulation, if it was of such a character as to cause it to be incidental to the successful discharge by a bank chartered by Congress of its public functions, it was competent for Congress to give the bank the power to exercise such private business in co-operation with or as part of its public authority. Manifestly this excluded the power of the state in such case, although it might possess in a general sense authority to regulate such business, to use that authority to prohibit such business from being united by Congress with the banking function, since to do so would be but the exertion of state authority to prohibit Congress from exerting a power which under the Constitution it had a right to exercise. From this it must also follow that even although a business be of such a character that it is not inherently considered susceptible of being included by Congress in the powers conferred on national banks, that rule would cease to apply if by state law state banking corporations, trust companies, or others which by reason of their business are rivals or quasi-rivals of national banks are permitted to carry on such business. This must be since the state may not by legislation create a condition as to a particular business which would bring about actual or potential competition with the business of national banks and at the same time deny the power of Congress to meet such created condition by legislation appropriate to avoid the injury which otherwise would be suffered by the national agency. Of course as the general subject of regulating the character of business just referred to is peculiarly within state administrative control, state regulations for the conduct of such business, if not discriminatory or so unreasonable as to justify the conclusion that they necessarily would so operate, would be controlling upon banks chartered by Congress when they came in virtue of authority conferred upon them by Congress to exert such particular powers. And these considerations clearly were in the legislative mind when it enacted the statute in question. This result would seem to be plain when it is observed (a) that the statute authorizes the exertion of the particular functions by national banks when not in contravention of the state law, that is, where the right to perform them is expressly given by the state law or what is equivalent is deducible from the state law because that law has given the functions to state banks or corporations whose business in a greater or less degree rivals that of national banks, thus engendering from the state law itself an implication of authority in Congress to do as to national banks that which the state law has done as to other corporations; and (b) that the statute subjects the right to exert the particular functions which it confers on national banks to the administrative authority

of the Reserve Board, giving besides to that board power to adopt rules regulating the exercise of the functions conferred, thus affording the means of co-ordinating the functions when permitted to be discharged by national banks with the reasonable and non-discriminating provisions of state law regulating their exercise as to state corporations—the whole to the end that harmony and the concordant exercise of the national and state power might result.

Before passing to the question of procedure we think it necessary to do no more than say that a contention which was pressed in argument and which it may be was indirectly referred to in the opinion of the court below that the authority given by the section to the Reserve Board was void because conferring legislative power on that board, is so plainly adversely disposed of by many previous adjudications as to cause it to be necessary only to refer to them. *Field v. Clark*, 143 U. S. 649; *Buttfield v. Stranahan*, 192 U. S. 470; *United States v. Grimaud*, 220 U. S. 506; *Monongahela Bridge Company v. United States*, 216 U. S. 177; *Intermountain Rate Cases*, 234 U. S. 476.

The question of the competency of the procedure and the right to administer the remedy sought, then remains. It involves a challenge of the right of the state attorney general to resort in a state court to proceedings in the nature of *quo warranto* to test the power of the corporation to exert the particular functions given by the Act of Congress because they were inherently Federal in character, enjoyed by a Federal corporation and susceptible only of being directly tested in a Federal court. Support for the challenge in argument is rested upon *Ableman v. Booth*, 21 Howard 506; *Tarble's Case*, 13 Wallace 397; *Van Reed v. People's National Bank*, 198 U. S. 554, 557; *State ex rel. Wilcox v. Curtis*, 32 Connecticut 374. But without inquiring into the merits of the doctrine upon which the proposition rests we think when the contention is tested by a consideration of the subject matter of this particular controversy it cannot be sustained. In other

words, we are of opinion that as the particular functions in question by the express terms of the Act of Congress were given only "when not in contravention of state or local law," the state court was, if not expressly, at least impliedly authorized by Congress to consider and pass upon the question whether the particular power was or was not in contravention of the state law, and we place our conclusion on that ground. We find no ambiguity in the text, but if it be that ambiguity is latent in the provision, a consideration of its purpose would dispel doubt especially in view of the interpretation which we have given the statute and the contrast between the clause governing the subject by the state law and the provision conferring administrative power on the Reserve Board. The nature of the subject dealt with adds cogency to this view since that subject involves the action of state courts of probate in a universal sense, implying from its very nature the duty of such courts to pass upon the question and the power of the court below within the limits of state jurisdiction to settle so far as the state was concerned the question for all such courts by one suit, thus avoiding the confusion which might arise in the entire system of state probate proceedings and the very serious injury to many classes of society which also might be occasioned. And our conclusion on this subject is fortified by the terms of section 57, c. 106, 13 Stat. 116, making controversies concerning national banks cognizable in state courts because of their intimate relation to many state laws and regulations, although without the grant of the Act of Congress such controversies would have been Federal in character.

As it follows from what we have said that the court below erred in declaring the section of the Act of Congress to be unconstitutional, the judgment must be reversed and the case remanded for further proceedings not inconsistent with this opinion.

And it is so ordered.

A true copy.

PRESIDENT P. W. GOEBEL APPOINTED A MEMBER OF THE INTERNATIONAL HIGH COMMISSION

The JOURNAL has received from the International High Commission the following official announcement under date of June 20:

"Secretary McAdoo announced today that President Wilson had signed commissions as members of the United States Section of the International High Commission for Peter W. Goebel, President of the American Bankers Association, and John H. Wigmore, Dean of the Northwestern University Law School, Chicago. Messrs. Goebel and Wigmore succeed Archibald Kains, governor of the Federal Reserve Bank of San Francisco, and Judge Elbert H. Gary, of the United States Steel Corporation, who resigned because of pressure of business.

"Mr. Goebel was born in Germany in 1859 and came to the United States in 1873, in which year he went to Kansas. After working on a farm and in a country grocery store for several years he was elected cashier of the Bank of Louisburg, Kan., in 1882, and in 1898 he organized the Commercial State Bank of Kansas City, which later became the Commercial National Bank. Mr. Goebel has been president of this institution since its organization. He has been successively president of the Kansas State Bankers Association and of the Kansas City Clearing House Association. In 1916 he was elected President of the American Bankers Association. He is a Democrat and has been a member of the State Legislature of Kansas. He is married and has five children.

"John H. Wigmore was born in San Francisco, Cal., March 4, 1863. He graduated from the Harvard University Law School in the class of 1887. For several years he was legal advisor to the Japanese Government and professor at the University of Tokio. Since 1901 he has been Dean of the Northwestern University Law School and is widely known as a pioneer in this country in the comparative study of law. He is the editor of the standard series of law manuals known as the 'Continental Legal Series.'

"The new appointments draw the work of the International High Commission still more closely in touch with the American Bankers Association and with the Conference of Commissioners on Uniform State Laws and the American Bar Association, with which Messrs. Goebel and Wigmore are respectively identified. The work of the commission in securing closer financial co-operation between American governments and greater uniformity in their commercial law will be correspondingly advanced through its closer association with these important organizations.

"Notice of the appointments will be sent by Secretary McAdoo in his capacity as chairman of the United States Section of the International High Commission to each of the Ministers of Finance of the American republics who are chairmen of sections."

"War Convention" Planned for American Bankers at Atlantic City

IMMEDIATELY after the Spring Meeting of the Executive Council, the chief business of the American Bankers Association became participation in the flotation of the Liberty Loan. With that patriotic duty performed, the Association has now turned its attention to arrangements for the annual convention to be held at Atlantic City the week of September 24.

It will be a "War Convention." It is not possible at this time to give the names of the speakers who will be heard at the general sessions, as these will be finally passed upon at a meeting of the Administrative Committee early in July, but it can be stated definitely that if present plans mature the bankers who attend the convention will have an opportunity to make a first-hand acquaintance with men of national and international reputation—the men who are doing the world's work in the fight of democracy against autocracy. Questions of technical banking interest undoubtedly will have an important place on the program, particularly so far as the Sections are concerned; but in the general convention, at a time when the main business of the country is war, it is believed that the bankers who rendered such splendid assistance in the first financial drive should have a chance to see in the flesh men whose names are today household words and to hear in detail the story of the Association's work on the Liberty Loan.

Of one thing members of the American Bankers Association can feel certain: there never has been any intention of abandoning the convention because of the war, as has been rumored recently, nor was the matter ever discussed, formally or informally. It is quite possible, and even probable, that the entertainment program will be curtailed, in view of the fact that American soldiers will be in the trenches by September and convention entertainment on a large scale will hardly be in keeping with the spirit of the times; but as a matter of fact, Atlantic City itself offers such unlimited possibilities for enjoyment that a set program is almost unnecessary.

In connection with the rumors circulated with regard to the cancellation of this and other conventions, it is of interest to quote a letter sent by the president of the Merchants Association of New York to President Wilson and the latter's reply. The letter of the Merchants Association is as follows:

"It has come to the attention of the Merchants Association of New York that there is a tendency to forego the

holding of conventions and general commercial meetings by business interests of the country because of a desire to practice alleged economy during the war.

"In our judgment this is a false idea of economy, the application of which will be harmful, rather than beneficial, both to the government and to the nation's business. Such gatherings, in our judgment, should be encouraged rather than discouraged, because failure to hold them as usual is likely to create a false impression, to stimulate a lack of business confidence and to discourage mutual co-operation, which is so necessary under existing circumstances. Conventions and gatherings of different trades and industries afford an exceptional opportunity on the part of business men composing them to study the effect of the war situation upon industries so that they may be best equipped to serve the needs of the government and to serve the normal business of the country. Both business and general conventions also afford exceptional opportunities for patriotic gatherings and the fostering of patriotic sentiment.

"We, therefore, respectfully suggest that, if in your judgment the continuation of such meetings is beneficial, a public utterance by you to that effect would be of value and would have a marked influence both in stimulating such gatherings and in perpetuating the results flowing therefrom. It seems to us that if ever the citizens of this country should get together, whether in business or general organization meetings, it is during such a period as that through which we are now passing."

To the above communication the following response was sent by Secretary Tumulty:

"The President asks me to acknowledge the receipt of your letter of June 6 and to say that he agrees with you that there is no sufficient reason for foregoing the holding of conventions and general commercial meetings by business interests, so far as he can see."

Full announcement of the hotel arrangements at Atlantic City was published in the December JOURNAL, together with a complete list of hotels and rates. To reiterate, those expecting to attend the convention should arrange for the accommodations desired directly with the hotel selected, as there is no local hotel committee. The general offices of the Association have nothing to do with making hotel reservations except in the case of Council members, officers of the Association, etc. Those who have not already done so should secure reservations at once.

NEW BUSINESS PERIODICAL

The *Business Digest*, "a monthly index-digest to current business news and progress for business executives," is now appearing regularly.

Its purpose, the publishers state, is to digest monthly all significant business literature as it appears in gov-

ernment publications, the daily newspapers and business, banking, advertising and allied periodicals, not only in this country, but abroad. It sells for \$1 a copy, or \$8 a year; published by the Cumulative Digest Corp., at 241 West 37th Street, New York City.

War Finance of the Belligerent Countries of Europe—Italy, Russia, Austria—Canada

BY SRINIVAS R. WAGEL

ITALY

ALTHOUGH Italy entered the war ten months after England, France and Russia, she felt the disorganization of her finances much sooner than any of the above-mentioned countries. Although this country remained a neutral from August, 1914, to May, 1915, she had all the disadvantages of a neutral without any of the correspondent benefits. Owing to her geographical situation and the constant efforts of each of the belligerents to injure each other as much as possible, Italy suffered as much during the ten months as if she had been actually engaged in the struggle. Prior to the war Italy was economically dependent on foreign countries, and for at least a decade German influence was in the ascendant. No doubt, the foreign holdings of Italy's public debt were being gradually reduced from about \$462,000,000 to about \$90,000,000, in August, 1914; the greater part of this amount having been held in France. In commerce, industry and manufactures German influence was almost paramount; Germany adopted the new policy of close co-operation with the natives of the country and had thus strengthened her own position. Even banking in the peninsula was German-controlled. The declaration of war, therefore, brought about a dislocation which entered into the vitals of the country. Italian commerce was seriously crippled; the taxable resources of the country shrank perceptibly, while the expenditure increased in an extraordinarily heavy ratio. Italy did not count upon a long war or a war which would involve the expenditure, the burden of which she is bearing today.

The entry of Italy into the war in May found this country with a deficit in her national budget, the country having spent about \$700,000,000 in order to maintain neutrality and keep the army fully mobilized. The allies, principally Great Britain and France, promised financial aid, and the amount received by Italy during 1915 from England and France totaled \$500,000,000. The ease with which the war was financed during 1915 was due mainly to the aid given by England and France. During the interval between the outbreak and Italy's entry into the war one loan for \$200,000,000, and bearing 4½ per cent. interest, was issued in December, 1914. Italy has adopted the British plan of raising money by means of treasury bills ranging from three to twelve months, and also by five-year exchequer bonds. Since Italy has been in the war, only three loans have been raised: the 5 per cent. war loan of July, 1915, realized \$200,000,000; the 5 per cent. twenty-five-year loan of January, 1916, realized \$800,000,000; the last loan was issued in November, 1916, and is reported to have realized about \$800,000,000.

The progress of time has not been very helpful to Italian finances. Italy has lost practically all her commerce. During the first eight months of 1916 she exported only \$295,000,000 worth of goods as against \$345,000,000 in the corresponding period of 1915. The carrying

on of the campaign has necessitated heavy purchases; and imports into the country for the first eight months of 1916 reached the unprecedented total of \$732,000,000. Manufacturing and industrial activity in the country has remained at a minimum, mainly because of the want of necessities like coal and iron; Italy depends for her food supply on the United States, and prices have increased more than 100 per cent. during the past two years.

It is not surprising, therefore, that only a small fraction of the expenditure can be met by the revenue. During the past two fiscal years ending June 30, the deficits were \$153,600,000 and \$652,000,000, respectively. New taxes have been imposed and some of the old taxes have been increased. The taxes follow on the line of those imposed in France, but the chief source of additional revenue is the excess profits tax.

Like other countries, Italy has availed herself of the printing press for the creation of new money, as well as credits abroad. The Bank of Italy, as well as the other two note-issuing banks had, prior to the war, issues totaling \$650,000,000; circulation has now increased to \$1,650,000,000. The proportion of increase is smaller than that of France, Germany or Russia; but Italian note issues even before the war were far from sound; and the proportion of gold reserve is smaller than that of any other country but Russia.

During the past eight months not only the conduct of the war, but also internal government expenditure in Italy has been defrayed by advances from England and France. The Italian situation has been serious for quite a while, and the country depends entirely upon foreign help for its very existence. Up to the date when the United States became a belligerent, only one issue of 6 per cent. notes for \$25,000,000 was made in the United States; that issue was far from a success and precluded the possibility of raising any further loans in the United States for Italy. Great Britain has been supplying Italy with funds at the rate of \$2,000,000 a day for several months. Up to date the United States has advanced \$200,000,000 to Italy.

The total war expenditure of Italy is at the rate of \$200,000,000 a month. In the early period, expenditure was considerably less. The total up to April 30, 1917, is estimated at \$4,500,000,000, including the \$700,000,000 spent during the period when Italy was a neutral. Most of this amount has been received from foreign countries, and the total is made up as follows:

National Loan, 4½ per cent., Dec., 1914....	\$200,000,000
War Loan, 4½ per cent., July, 1915.....	200,000,000
Twenty-five-year 5 per cent. (est.)	800,000,000
National, 5 per cent., Dec., 1916 (est.)	800,000,000
One-year, 6 per cent., U. S.	25,000,000
Treasury Bills and Coupons.....	1,225,000,000
British and French Credits for War Supplies	750,000,000
	<hr/>
	\$4,000,000,000

RUSSIA

The noteworthy feature of Russian war finance is that nearly 50 per cent. of the expenditure has been met by new paper issues. Russia has spent up to date about \$10,000,000,000; out of this amount \$5,500,000,000 have been raised by the issue of paper money by the Imperial Russian Bank. From the start, Russia had to be helped by her allies, although not to the same extent as Italy. Under other conditions Russia might have been self-supporting; but the closing of the Dardanelles, as well as the fact that Germany was the principal customer for her raw products, made Russia's position very difficult. She had to make heavy purchases of munitions and war supplies, while there was no means of disposing of her normal produce. During the first few months of the war the seriousness of the position was not realized. Later, however, this situation, together with the fact that large bodies of cultivators were being drafted into the army, produced the effects which finally resulted in the revolution. Since May, 1915, Russia's dependence on her allies for funds has been incessant. France and England were obliged to lend comparatively large sums at the beginning of every campaign. The total borrowed by Russia from England is now known to be \$2,000,000,000, or nearly one-half of the total sum loaned by England to her allies. France has helped Russia to the extent of \$500,000,000—apart from the commercial credits which France had to undertake, as well as payments of coupons on Russian bonds.

Russia has issued only six loans of any importance; the smallest being that of October, 1914, issued at 5 per cent., which realized \$257,500,000. The 5½ per cent. loan of April, 1916, realized \$1,000,000,000, and the receipts from the 5½ per cent. loan of November, 1916, were estimated at \$1,000,000,000. The total realized from internal loans is under \$3,000,000,000.

The foreign borrowings of Russia have been larger than those of any other country. The only neutral countries from which Russia was able to borrow were the United States and Japan. Japan has been supplying war materials since August, 1914, and on her own account Japan has loaned Russia about \$150,000,000. Latterly, however, Japan demanded and obtained the guarantee of Great Britain and France for supplying Russia with munitions. Two loans were raised in the United States. The total realized from these amounted to \$75,000,000; but they could hardly be called a success. The last Russian internal bonds were sold in the United States, and it is reported that about \$20,000,000 were realized from such sales. Including the amounts advanced by Great Britain, Russia's total indebtedness to foreign countries on account of the war will amount to \$2,750,000,000. The balance of the expenditure has been met out of treasury bills, exchequer bonds and increased note issues of the Imperial Russian Bank. The exchequer bonds and other minor issues amount on the whole to about \$500,000,000. The note issue now stands at \$5,500,000,000—of which about \$3,000,000,000 were issued during the past six months. There is no metal money at all in circulation in Russia. In the latter part of 1916 an attempt was made by Russia to introduce silver coins on a large scale in order to gather the gold into the Imperial Bank. For a long time, Russia has had paper for even fractional coins. During 1916 Russia was a member of the pool

formed by the Allies in order to export gold to the United States to maintain their credit here. The pool has supplied about \$1,200,000,000 in gold, and it is estimated that Russia's share is about \$200,000,000. The revolution has brought about new problems to Russia, and there is speculation about a separate peace with Germany. In spite of such possibility, the United States has advanced \$100,000,000; and the Root Commission is expected to accomplish a great deal and involve further financing of Russia by the United States. The war finance of Russia up to the close of April, 1917, is as follows:

War Loan, 5 per cent., Oct., 1914.....	\$257,500,000
War Loan, 5 per cent., Feb., 1915.....	257,500,000
War Loan, 5½ per cent., May, 1915.....	500,000,000
War Loan, 5½ per cent., Nov., 1915.....	500,000,000
War Loan, 5½ per cent., April, 1916....	1,000,000,000
War Loan, 5½ per cent., Nov., 1916....	1,000,000,000
Exchequer Bonds.....	500,000,000
Currency and Other Loans.....	150,000,000
Treasury Bills in Russia	3,000,000,000
Treasury Bills in England	2,000,000,000
Treasury Bills in France	500,000,000
Loans in Japan	125,000,000
Loans in U. S.....	75,000,000
	<hr/> \$9,965,000,000

AUSTRIA

The war finance of Austria has been comparatively simple. There were no false hopes as to the possibility of trade, increased revenues from taxation or issues of money raised elsewhere. To a small extent, Austria, like the rest of the allies of Germany, has received help from German banks; but it was evident to all the parties concerned that as far as possible she would have to shift for herself. Following Germany's plan, Austria did not even attempt to meet any part of the expenditure by revenue. As a matter of fact, it would have been futile to have attempted to do so. The situation of Austria was such as to relegate every other consideration to the background, but those of obtaining food for the people and supplies for carrying on the war. Consequently the solution of the problem has been comparatively easy. At the very outset of the war, all specie payments were suspended, and the Bank of Austria-Hungary stopped issuing statements about its gold and the increase in circulation. It is well known that the actual revenue of the Dual Empire has been less than in normal years. It is evident, therefore, that all the money spent has been obtained by loans, as well as the increase in the paper circulation.

The issue of loans has been met separately by Austria and Hungary. The contribution of Austria has naturally been larger, but there has been a laudable emulation between the two countries. Six loans have been raised up to date, and the total realized is in the neighborhood of \$5,500,000,000. The frequent issues of loans have helped toward keeping the issues of paper money at a reasonable level—under the circumstances. Germany helped Austria at the outset. A group of German banks advanced sums both to Austria and Hungary, but later on such advances became unnecessary. On the other hand, Austria has rendered financial aid to Turkey and Bulgaria to the extent of about \$250,000,000.

The total war expenditure is roughly placed at \$7,000,000,000. Owing to the almost complete absence of information from the Dual Empire, except with regard to the total sums realized from loans, one has to depend very much on estimates. The war finances of Austria up to the close of June, 1917, are:

Austrian, 5½ per cent., Nov., 1914.....	\$445,000,000
Hungarian, 6 per cent., Nov., 1914.....	245,000,000
Austrian, 5½ per cent., June, 1915.....	560,000,000
Hungarian, 6 per cent., June, 1915.....	225,000,000
Austrian, 5½ per cent., Nov., 1915.....	815,000,000
Hungarian, 6 per cent., Nov., 1915.....	240,000,000
Austrian, 5½ per cent., May, 1916.....	565,000,000
Hungarian, 6 per cent., May, 1916.....	300,000,000
Austrian, 5½ per cent., Nov., 1916.....	835,000,000
Hungarian, 6 per cent., Nov., 1916.....	250,000,000
Austrian, 5½ per cent., May, 1917.....	850,000,000
Hungarian, 6 per cent., May, 1917.....	300,000,000
Loans from German Bankers.....	580,000,000
Treasury Bills and Notes.....	1,000,000,000
	<hr/> \$7,210,000,000

CANADA

One of the surprises of the war is the part that Canada has played by furnishing men and money to the mother country. At the outbreak of the war the financial condition of Canada was far from satisfactory. Having been accustomed for decades to depend upon England for its capital, it was thought that the stoppage of the export of capital to Canada from Great Britain would lead to serious consequences. As a matter of fact, in September, 1914, Great Britain had to lend \$50,000,000 to Canada in order to prevent financial disorganization. Many of the staple trades were badly hit and the government adopted the scheme of taxation, which was at that time novel, of tapping every imaginable source for new revenue. Up to the early part of 1915, Canada was drifting; but the developments in Europe which necessitated the purchase

of munitions and food stuffs from the American continent, gave a fillip to industrial activity in Canada. Imports from Great Britain and other countries were reduced, while exports more than doubled. Numerous munition factories were set up, and factories manufacturing war supplies were active and working with large profits. The improved financial position enabled the government to take up a larger share of the burden of the mother country, instead of expecting financial aid as of yore. In this respect, the contiguity of the United States was of invaluable help to Canada. New capital from the United States flowed in at a pace unknown in previous history, and the New York market helped to facilitate the flotation of several Canadian Government loans. Up to the autumn of 1916, Canada had floated \$345,000,000 in loans, and at date the war loans amount to \$535,000,000. During the period of the war, the United States capital invested in Canada has increased from \$150,000,000 to \$1,000,000,000; and provincial and municipal loans to the total of \$150,000,000 have been floated in the United States.

Canada has agreed to provide at the rate of \$25,000,000 a month for the war; and if the conscription bill goes through and Canadian effort is increased, the expenditure will be even larger. But so long as industrial activity in the manufacture of war supplies is maintained, this country will be fully able to bear her share of the burden. The receipts from revenue have increased, but not to such an extent as was believed at one time. The main source of additional revenue—as in most other countries—is the excess profits tax. The war finance of Canada at the close of April, 1916, was as follows:

Canadian, ten-year 4½ per cent., in London..	\$25,000,000
Canadian, one and two year 5 per cent., in U. S.....	45,000,000
Canadian, five, ten and fifteen year 5 per cent., in U. S.....	75,000,000
Canadian, ten-year internal 5½s.....	100,000,000
Canadian, fifteen-year internal 6s.....	100,000,000
Canadian Loan of 1917.....	100,000,000
	<hr/> \$445,000,000

RESERVE BANK STATEMENT MODIFIED

The amendments to the Federal Reserve Act recently enacted into law have modified to some extent the form of weekly statement of the Federal reserve banks. The official announcement issued in connection with the report of conditions for the week ending June 22 contains the following explanatory statement:

"Section 7 of the amendments provides that gold and gold certificates held by Federal reserve agents as collateral against notes issued to the banks shall be counted as part of the banks' gold reserve against their Federal reserve notes in actual circulation, and accordingly the statement includes among the banks' reserves the amounts of gold held by the Federal reserve agents. These amounts, together with gold held by the banks with the United States Treasurer for the redemption of Federal reserve notes, constitute a special 'note gold reserve,' as distinct from the 'net deposit reserve' composed of the gold and lawful money holdings of the banks proper, including amounts held in vault, with the Federal Reserve Board

and with foreign agencies. In place of the former net liability on Federal reserve notes, which represented amounts of Federal reserve notes issued to the banks less amounts of notes held by the banks and gold deposited with the Federal reserve agents, the statement, in its new form, shows among the liabilities of the banks the amounts of Federal reserve notes in actual circulation, i. e., amounts of notes received from the Federal reserve agents less amounts held by the banks and in process of redemption by the treasury. Reserves have been figured separately against net deposit liabilities and against Federal reserve notes in actual circulation. With the view of enabling the reader more readily to trace changes in the condition of the Federal reserve system the statements of June 15 and of a year ago have been reconstructed and readjusted on the new basis. Other minor changes affect the form, rather than the substance of the statement, and, it is hoped, will make it easier for the reader to follow future developments of the Federal reserve system."

3½% LIBERTY BOND YIELDS

PRICE IN 50THS. OF 1%	PRICE OF \$100 BOND	JUNE 15 1917 MATURING IN 30 YEARS	DEC 15 1917 MATURING IN 29½ YEARS	JUNE 15 1917 MATURING IN 15 YEARS	DEC 15 1917 MATURING IN 14½ YEARS
105	\$105.00	3.238%	3.235%	3.081%	3.070%
104.45	104.80	3.243	3.241	3.089	3.078
.40	.80	3.248	3.246	3.097	3.087
.35	.70	3.253	3.251	3.106	3.095
104.30	104.60	3.258	3.256	3.114	3.104
.25	.50	3.264	3.261	3.122	3.112
.20	.40	3.269	3.266	3.130	3.120
.15	.30	3.274	3.272	3.139	3.129
.10	.20	3.279	3.277	3.148	3.137
.05	.10	3.284	3.282	3.156	3.146
104.00	104.00	3.289	3.287	3.163	3.154
103.45	103.80	3.294	3.292	3.171	3.162
.40	.80	3.300	3.298	3.180	3.171
.35	.70	3.305	3.303	3.188	3.179
103.30	103.60	3.310	3.308	3.196	3.188
.25	.50	3.315	3.313	3.204	3.196
.20	.40	3.320	3.318	3.213	3.203
.15	.30	3.326	3.324	3.221	3.213
.10	.20	3.331	3.329	3.229	3.222
103.10	103.10	3.336	3.334	3.238	3.230
102.45	102.90	3.341	3.339	3.246	3.239
.40	.80	3.346	3.344	3.254	3.248
.35	.70	3.352	3.350	3.262	3.256
.30	.60	3.357	3.355	3.271	3.265
.25	.50	3.362	3.360	3.279	3.274
.20	.40	3.367	3.365	3.288	3.282
.15	.30	3.372	3.371	3.296	3.291
.10	.20	3.378	3.376	3.304	3.299
.05	.10	3.383	3.382	3.313	3.308
102.10	102.00	3.388	3.387	3.321	3.316
101.45	101.90	3.393	3.392	3.330	3.325
.40	.80	3.399	3.398	3.338	3.334
.35	.70	3.404	3.403	3.346	3.342
.30	.60	3.410	3.409	3.355	3.351
.25	.50	3.415	3.414	3.363	3.360
.20	.40	3.421	3.420	3.372	3.368
.15	.30	3.426	3.424	3.380	3.377
.10	.20	3.431	3.430	3.389	3.386
.05	.10	3.436	3.435	3.397	3.394
101.00	101.00	3.441	3.440	3.406	3.403
100.49	100.98	3.447	3.446	3.414	3.412
.48	.96				
.47	.94				
100.45	100.89	3.452	3.451	3.423	3.421
.44	.88				
.43	.86				
.42	.84				
.41	.82				
100.40	100.80	3.457	3.456	3.432	3.430
.39	.78				
.38	.76				
.37	.74				
100.35	100.70	3.463	3.462	3.440	3.439
.34	.68				
.33	.66				
.32	.64				
100.30	100.60	3.468	3.467	3.448	3.447
.29	.58				
.28	.56				
.27	.54				
100.25	100.50	3.473	3.472	3.457	3.456
.24	.48				
.23	.46				
.22	.44				
100.20	100.40	3.478	3.478	3.466	3.465
.19	.38				
.18	.36				
.17	.34				
100.15	100.30	3.484	3.484	3.474	3.473
.14	.28				
.13	.26				
.12	.24				
100.10	100.20	3.489	3.489	3.483	3.482
.09	.18				
.08	.16				
.07	.14				
100.05	100.10	3.492	3.492	3.491	3.491
.04	.08				
.03	.06				
.02	.04				
100.00	100.00	3.500%	3.500%	3.500%	3.500%
99.49	99.98				
.48	.96				
.47	.94				
.46	.92				
99.45	99.90	3.506	3.506	3.509	3.509
.44	.88				
.43	.86				
.42	.84				
99.40	99.80	3.511	3.511	3.517	3.518
.39	.78				
.38	.76				
.37	.74				
99.35	99.70	3.517	3.517	3.526	3.527
.34	.68				
.33	.66				
99.30	99.60	3.522	3.522	3.535	3.536
.29	.58				
.28	.56				
.27	.54				
99.25	99.50	3.527	3.528	3.544	3.545
.24	.48				
.23	.46				
.22	.44				
99.20	99.40	3.533	3.533	3.552	3.553
.19	.38				
.18	.36				
.17	.34				
99.15	99.30	3.538	3.539	3.561	3.562
.14	.28				
.13	.26				
.12	.24				
99.10	99.20	3.543	3.544	3.569	3.571
.09	.18				
.08	.16				
.07	.14				
99.05	99.10	3.549	3.550	3.578	3.580
.04	.08				
.03	.06				
.02	.04				
99.00	99.00	3.554%	3.555%	3.587%	3.588%

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"It is not too late to buy your Liberty Bond from your banker if you have not already done so."

Liberty Bonds have been listed on the exchanges and have been sold—to be delivered when issued—at prices above par.

The stock exchanges have decided that dealings in the 3½% 15—30 year Liberty Bonds shall be in fiftieths of one per cent., which is six and one-quarter times as small as the customary quotations of stocks and bonds in eighths of one per cent.

Each fiftieth of one per cent. change in quotation of sale prices is one cent for a \$50 bond, two cents for a \$100 bond and twenty cents for a \$1,000 bond and changes the value of the \$2,000,000,000 bond issue by \$400,000. This shows the tremendous size of the loan.

The change in value of a \$320,000,000 bond issue by the customary one-eighth of one per cent. is also \$400,000. A quotation of Liberty Bonds at 100.7 means 100 and seven fiftieths which is \$100.14.

The per cent. yield of the thirty year bond at the price of \$100.14 is 3.492%, which is two-fifths of the yield variation between 3.494% and 3.389%.

The Liberty Bonds are redeemable by the government in thirty years on June 15, 1947, or may be redeemed at the option of the government in fifteen years on June 15, 1932, or at any time between. On the first interest payment date, December 15, 1917, the shortest optional redemption time becomes fourteen and one-half years.

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AMENDMENTS TO THE FEDERAL RESERVE ACT

The Federal Reserve Board has sent to all Federal reserve banks an official letter announcing that the act amending the Federal Reserve Act had become law and explaining the conditions under which the new reserve requirements would be made effective. The letter is as follows:

June 22, 1917.

"The bill recently passed by Congress amending the Federal Reserve Act has today been approved by the President and has become a law. A revised draft of the Federal Reserve Act as amended has been prepared and will be forwarded to all Federal reserve banks and member banks as soon as received from the printer. New regulations by the Board are in the course of preparation and will be forwarded to you in the very near future for distribution among your member banks. In the meantime, your attention is directed to section 10 of the Act in question which amends section 19 of the Federal Reserve Act and provides in part as follows:

"Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

"Every bank, banking association or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

"(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(b) If in a reserve city, as now or hereafter defined it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"Compliance with this section will make it necessary, in most cases, for member banks to increase their balances with the Federal reserve banks. It is, of course, desirable that these deposits should be made promptly, but with as little disturbance to financial conditions as possible, and to accomplish this the co-operation of all member banks is necessary.

"Federal reserve banks in central reserve cities should request their member banks located in such cities to increase their balances with their Federal reserve bank in an amount sufficient to comply with the new requirement of the Act, not later than June 27.

"In view of the fact that it is to be assumed that reserve city banks and country banks will be obliged to draw heavily upon their central reserve city and reserve city correspondents in order to meet demands to be made on account of the instalments becoming due upon subscriptions to the Liberty Loan, country banks and reserve city banks should be requested immediately to build up their balances with their respective Federal reserve banks by remitting cash from their own vaults as far as they can do so without impairing their ability to care for local needs.

"The Board considers it inadvisable to increase at this time the pressure on reserve and central reserve cities by encouraging heavy withdrawals from those cities by correspondent banks desiring to make transfers to the Federal reserve banks to meet the new reserve requirements.

"While the new law becomes technically effective from this date it is, of course, understood that a reasonable time must be allowed for making the necessary transfer of reserve to meet the requirements of the Act.

"If, therefore, member banks continue to maintain with the Federal reserve banks the percentage of reserve required hitherto, the Federal reserve banks may, until July 15, reasonably refrain from imposing penalties against member banks on account of deficiency in reserve carried with them. That is to say, failure to transfer the additional amount required by the new Act need not be penalized until after July 15.

"It is suggested to Federal reserve banks that it might be advisable for them, in order to facilitate and expedite the transfer of cash from vaults of member banks to the vaults of Federal reserve banks, to show liberality, as far as permitted by law, in refunding to member banks the shipping expenses of currency sent to Federal reserve banks before June 30 and in dealing with remittances of gold coin to be exchanged for Federal reserve notes. A similar policy is suggested in dealing with state banks desiring to establish balances with Federal reserve banks in advance of becoming either full members or members of the clearing system.

"It must be evident to all banks that it is to their own interest to strengthen as far as possible the reserve and lending power of their Federal reserve banks, the facilities of which are likely to be used extensively in connection with the shifting of funds incident to the payments to be made on account of Liberty bond subscriptions. Every bank, member and non-member, should, therefore, do its utmost to strengthen the gold reserve of the Federal reserve banks by promptly transferring such vault money as can be spared and by exchanging gold certificates and gold for Federal reserve notes, thereby helping to carry out the policy adopted for the public welfare of encouraging, for purposes of general circulation, the use of Federal reserve notes rather than of gold certificates.

"It is hoped that banks in Federal reserve cities will make a special effort to co-operate with the central reserve cities in at once transferring to their respective Federal reserve banks such amount of vault money as they can conveniently spare. In case of demand they can always replenish their currency supply by calling upon their respective Federal reserve banks."

The amendments to the Federal Reserve Act as finally agreed upon in conference and passed by both houses are in full as follows:

That section three of the act known as the Federal Reserve Act be amended and re-enacted so as to read as follows:

"SEC. 3. The Federal Reserve Board may permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board."

SEC. 2. That section four in the paragraph relating to the appointment of class C directors and prescribing their duties be amended and re-enacted so as to read as follows:

"Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said Board as chairman of the board of directors of the Federal reserve bank and as 'Federal reserve agent.' He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain, under regulations to be established by the Federal Reserve Board, a local office of said Board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the Board when necessary. In case of the absence of the chairman and deputy chairman, the third class C director shall preside at meetings of the board.

"Subject to the approval of the Federal Reserve Board, the Federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability. The Federal Reserve Board shall require such bonds of the assistant Federal reserve agents as it may deem necessary for the protection of the United States. Assistants to the Federal reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the Federal reserve agent."

SEC. 3. That section nine be amended and re-enacted so as to read as follows:

"SEC. 9. Any bank incorporated by special law of any state, or organized under the general laws of any state or of the United States, desiring to become a member of the Federal reserve system, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.

"In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act.

"Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal

reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board, and stock issued to it shall be held subject to the provisions of this act.

"All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relate to the payment of unearned dividends. Such banks and the officers, agents and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes, and shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of \$100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit or otherwise. As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board. Whenever the directors of the Federal reserve bank shall approve the examinations made by the state authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: Provided, however, that when it deems it necessary the Board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by state authorities, shall be assessed against and paid by the banks examined.

"If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, it shall be within the power of the Board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

"Any state bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: Provided, however, that no Federal reserve bank shall, except under express authority of the Federal Reserve Board, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the Board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

"No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act.

"Banks becoming members of the Federal reserve system under authority of this section shall be subject to the

provisions of this section and to those of this act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this act. Subject to the provisions of this act and to the regulations of the Board made pursuant thereto, any bank becoming a member of the Federal reserve system shall retain its full charter and statutory rights as a state bank or trust company, and may continue to exercise all corporate powers granted it by the state in which it was created, and shall be entitled to all privileges of member banks: Provided, however, that no Federal reserve bank shall be permitted to discount for any state bank or trust company notes, drafts or bills of exchange of any one borrower who is liable for borrowed money to such state bank or trust company in an amount greater than ten per centum of the capital and surplus of such state bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section. The Federal reserve bank, as a condition of the discount of notes, drafts and bills of exchange for such state bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts or bills of exchange are under discount with the Federal reserve bank.

"It shall be unlawful for any officer, clerk or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk or agent in violation of this section may subject such bank to a forfeiture of its membership in the Federal reserve system upon hearing by the Federal Reserve Board."

SEC. 4. That the first paragraph of section thirteen be further amended and re-enacted so as to read as follows:

"Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any non-member bank or trust company deposits of current funds in lawful money, national bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: Provided, Such non-member bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: Provided further, That nothing in this or any other section of this act shall be construed as prohibiting a member or non-member bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks."

SEC. 5. That the fifth paragraph of section thirteen be further amended and re-enacted so as to read as follows:

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run, exclusive of days of grace, which grow out of

transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: Provided, however, that the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: Provided further, That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus."

SEC. 6. That section fourteen, subsection (e), be amended and re-enacted so as to read as follows:

"(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said Board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the Board."

SEC. 7. That section sixteen, paragraphs two, three, four, five, six and seven be further amended and re-enacted so as to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange or acceptances acquired under the provisions of section thirteen of this act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section fourteen of this act, or bankers' acceptances purchased under the provisions of said section fourteen, or gold or gold certificates; but in no event shall such collateral security, whether gold, gold certificates, or eligible paper, be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

"Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation: Provided, however, that when the Federal reserve agent holds gold or gold certificates as collateral for Federal reserve notes issued to the bank such gold or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its Federal reserve notes in actual circulation. Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued or, upon direction of such Federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

"The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank; but in no event less than five per centum of the total amount of notes issued less the amount of gold or gold certificates held by the Federal reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant, in whole or in part, or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal reserve notes less the amount of gold or gold certificates held by the Federal reserve agent as collateral security. Federal reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this act upon security of United States two per centum government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing with the Federal reserve agent its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit to the Treasurer of the United States so much of the gold held by him as collateral security for Federal reserve notes as may be required for the exclusive purpose of the redemption of such Federal reserve notes, but such gold when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal reserve agent.

"Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against Federal reserve notes which have been retired. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue."

All Federal reserve notes and all gold, gold certificates and lawful money issued to or deposited with any Federal reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold or gold certificates with the Federal Reserve Board, to be held by such board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

SEC. 8. That section sixteen be further amended by adding at the end of the section the following:

"That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal reserve bank or Federal reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal reserve bank or Federal reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold coin or gold certificates on the order of the Federal Reserve Board to any Federal reserve bank or Federal reserve agent at the Treasury or at the subtreasury of the United States nearest the place of business of such Federal reserve bank or such Federal reserve agent: Provided, however, that any expense incurred in shipping gold to or from the Treasury or subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the Federal reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the Governor or Vice-Governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

"The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the

Federal Reserve Board and included in its assessments against the several Federal reserve banks.

"Gold deposits standing to the credit of any Federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal reserve notes, or as a part of the reserve it is required to maintain against deposits.

"Nothing in this section shall be construed as amending section six of the act of March fourteenth, nineteen hundred, as amended by the acts of March fourth, nineteen hundred and seven, March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those acts."

SEC. 9. That section seventeen be amended and re-enacted so as to read as follows:

"SEC. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed."

SEC. 10. That section nineteen be further amended and re-enacted so as to read as follows:

"SEC. 19. Demand deposits within the meaning of this act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

"Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

"(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"No member bank shall keep on deposit with any state bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a non-member bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this act, except by permission of the Federal Reserve Board.

"The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, that no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

"In estimating the balances required by this act, the net difference of amounts due to and from other banks

shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

"National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain non-member banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves and be subject to all the other provisions of this act."

SEC. 11. That that part of section twenty-two which reads as follows: "Other than the usual salary or director's fees paid to any officer, director or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director or employee for service rendered to such bank, no officer, director, employee or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift or other consideration for or in connection with any transaction or business of the bank," be amended and re-enacted so as to read as follows:

"Other than the usual salary or director's fee paid to any officer, director, employee or attorney of a member bank, and other than a reasonable fee paid by said bank to such officer, director, employee or attorney for services rendered to such bank, no officer, director, employee or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift or other consideration for or in connection with any transaction or business of the bank: Provided, however, that nothing in this act contained shall be construed to prohibit a director, officer, employee or attorney from receiving the same rate of interest paid to other depositors for similar deposits made with such bank: And provided further, That notes, drafts, bills of exchange or other evidences of debt executed or indorsed by directors or attorneys of a member bank may be discounted with such member bank on the same terms and conditions as other notes, drafts, bills of exchange or evidences of debt upon the affirmative vote or written assent of at least a majority of the members of the board of directors of such member bank.

Statement of the Managers on the Part of the House

Section 1 of the bill as reported by the conferees is identical with section 7 of the bill as passed by the House.

Section 2 is substantially the same as section 1 of the House bill.

Section 3 of the bill is substantially the same as section 9 of the House bill.

Section 4 of the bill as reported by the conferees is identical with section 2 of the House bill down to the proviso. The proviso is amended to conform, in substance, to the Senate bill, including the so-called Hardwick amendment permitting collection charges for exchange, so as to read as follows:

Provided, Such non-member bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: Provided further, That nothing in this or any other section of this act shall be construed as prohibiting a member or non-member bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

Section 5 is identical with section 3 of the House bill.

Section 6 is identical with section 8 of the House bill.

Section 7 was contained in the Senate bill as section 5, but was not in the House bill. This section is intended to permit the Federal reserve banks to exchange Federal reserve notes for gold and gold certificates and in this way

drift into the banks the idle floating gold which in the hands of the Federal banks would have great potential value.

Section 8 is identical with section 6 of the Senate bill, but was not contained in the bill as it passed the House. This amendment is merely for the convenience of the Federal Reserve Board in handling the daily exchanges between the twelve reserve banks, which now must be done by physical transfer of the gold certificates from one bank

to another. It is proposed to put these certificates in a common vault and arrange the distribution by bookkeeping instead of by transfer.

Section 9 corresponds to and is identical with section 4 of the House bill.

Section 10 corresponds to and is identical with section 5 of the House bill.

Section 11 is substantially the same as section 6 of the House bill.

WAR LOANS AND THE DANGER OF INFLATION

The question of the duty of banks in regard to war loan bonds is one of continuing interest. There seem to be two classes of opinions. The banking view is that the bonds should be taken by the people and the smaller the quantity held by the banks, the more secure is the financial situation. Another view is that it is not unsafe from the sound economic standpoint for the banking institutions to take a substantial portion of the loan on their own account. The Comptroller of the Currency issued a statement, before the books for the Liberty Loan had closed, that it was safe and proper for the banks to invest for their own account in bonds an amount equal to 6 per cent. of their resources.

On June 22 Dr. A. C. Miller, of the Federal Reserve Board, addressed a joint conference of the Western Economic Society and the Chicago City Club in Chicago on "War Finance and the Federal Reserve Banks." Dr. Miller's address has been officially summarized in part as follows:

"Saving on a scale of unprecedented intensity will be an essential preliminary under any effective scheme of national finance we may adopt. Financing a war whose annual cost is estimated as high as \$10,000,000,000 a year will involve, for many classes of the consuming public, very drastic revisions of their mode of living. Only thus can we successfully undertake the financing of the war and put it on a foundation of economic concrete.

"Mr. Miller reviewed the success of the Liberty Loan just negotiated, commenting on the numerous elements in the community that had loyally contributed to its success, and explaining the various steps taken by the Federal reserve banks, in the way of preferential rates of discount, to aid the banks in floating the loan. He analyzed the existing figures of national wealth and income and showed that, despite our large wealth and enormous annual income—the latter estimate as high as \$40,000,000,000—the yearly burden on us of this war (\$10,000,000,000) would involve the absorption of fully one-fourth of our entire annual income for government use during the war. Inasmuch as the annual savings of the nation in peace times are, at the most optimistic estimate, only \$5,000,000,000, it is evident that another \$5,000,000,000 will have to be raised out of the new savings of the people.

"Because this new savings could not at once be in-

duced, it was clearly necessary that the great financial institutions of the country should make advances either to their customers in aid of their subscriptions to Liberty bonds or directly to the government, in the expectation that they could subsequently place these bonds with the investing public. Consequently the Federal reserve banks cooperated in every way and at every stage to aid the banks in this process. What the ultimate position of the Federal reserve banks will be in the nation's war finance program will depend upon what permanent form that program takes. The Federal reserve banks are, after all, but one part, however important, of our national machinery of finance, and that machinery will work to poor purpose if every part of it does not mesh in with the other essential parts. The making of a national financial policy for the conduct of the war is not in the hands of the Federal Reserve Board, and Dr. Miller pointed out that as yet Congress has evolved no definite program.

"Speaking of the danger of overconfidence to the banking structure of the country in absorbing war loans, Dr. Miller said, 'Banks can perhaps safely undertake the financing of wars of ordinary financial magnitude, but a war calling for expenditures and advances of \$10,000,000,000 for the first year clearly calls for more fundamental financial provision than can be provided by the banking credit of this or any other country.' This provision will have to be made from the savings of the people, and Dr. Miller showed that the much-discussed controversy over loans and taxation as the means of raising war revenue really resolved itself into a question as to which of the two, or what combination of them, would have the greatest effect in stimulating thrift and the growth of the annual savings. 'The danger of the loan policy is that, by deluding itself with the notion that it is putting the burden on to the future, it will, after failing to induce a commensurate increase of the savings fund of the nation, degenerate into inflation through abuse of banking credit.' If our loan policy, through an undue reliance upon banking credit, degenerates into inflation, it means that that policy is failing, and therefore that the system of undertaking to induce the people to save for the use of the government—in brief, the voluntary system—must give way to some other method, the system of compulsion, of financial draft. That may mean taxation carried to the limit."

Financing the Farmer as a War Measure

BY HOMER JOSEPH DODGE,
Editor The Bankers' Information Service

NAPOLEON said that an army moves on its belly, but in these days it appears that a whole nation depends for success in warfare upon its ability to ration its civilian population as well as its armed forces. So far as the United States and the present enterprise against the Imperial German Government are concerned, the American people have been told that the mead of victory will not be vouchsafed unless half the world, in addition to the United States, can be fed.

This situation places upon the shoulders of American farmers a heavier burden than they have ever been called upon to bear before. The long drawn-out campaign for a rural credits system in the United States came to fruition about a year ago, and so there now is a medium through which the farmer can be aided in his great task. That such a need exists is doubted by few. Because of new and improved methods of producing crops and of marketing them the farmer cannot now be entirely successful unless he has the capital to avail himself of these new aids. The Rural Credits Act was designed to fill this niche and the Federal Farm Loan Board, now sitting at Washington as a permanent body, is charged with the duty of administering a law calculated to provide the American farmer with funds, secured by mortgage on his acres, which he may repay in a maximum of forty years. Not so considered at the time of its creation, this Board has now swung into a position of importance in the war councils of the nation.

Under the Rural Credits Act the capital stock of the twelve Federal land banks totals but \$9,000,000. The act contemplates that the great bulk of the funds to be lent through these banks to the farmers shall be provided through the sale of bonds to the general public. In accordance with this plan the Federal Farm Loan Board announced an issue of bonds on July 1, 1917, to bear 4½ per cent. interest per annum. Within a year the Board plans to authorize the twelve banks to issue from \$100,000,000 to \$150,000,000 in these bonds.

Farm loan bonds constitute a mortgage on all the farm lands on which money shall be lent through the rural credits system. Under the Farm Loan Act the responsibility of the twelve Federal land banks is joint. The act exempts these bonds from taxes except inheritance taxes and Attorney General Gregory, in an opinion, has upheld the constitutionality of this and all other provisions of the act. A syndicate of investment houses has obtained a separate legal opinion from former Justice Charles E. Hughes which agrees with that of the Attorney General. Consequently these securities are regarded as gilt edged.

The initial issue of bonds is being handled in two sections—half by a syndicate of investment houses consisting of Alexander Brown & Sons of Baltimore; Brown Brothers & Company of Philadelphia; Harris, Forbes & Company of New York, and Lee, Higginson & Company of Boston, and the other half directly by the twelve Federal land banks. The bonds command a premium, being put out at 101½. The four investment houses have agreed to form a national group, which will include bond houses in each district. The fact that the American people are unfamiliar

with rural credits has induced the Board to insist that these investment institutions conduct a campaign of education as a part of their selling plan. The Federal land banks also will follow a similar course.

The issuance of these bonds has been put off to this date because the Administration at Washington did not desire to have any other active issue out in competition with the Liberty Loan, especially since the farm loan bonds will pay 4½ per cent. as compared with the 3½ per cent. paid by the present issue of Liberty Loan bonds. The delay has caused some inconvenience to the banks and to the farmers of the country, but the Board now feels that it can procure money for the farmers quickly enough to make up for lost time. It is a fact, however, that for the last two or three months the Farm Loan Board has been in receipt of letters almost constantly urging that steps be taken to provide funds with which to make loans. Farmers and bankers have informed the Board that many husbandmen have been obliged to postpone the planting of food crops because of their inability to provide themselves with funds for seed, fertilizer, farming implements and machinery and labor.

The twelve Federal land banks have applications on file for \$100,000,000 in loans. The twelve land banks have lent a total of \$9,465,739, or nearly half a million more than their aggregate capital. This has been done by the borrowing of money by the banks in order to satisfy some of the most pressing demands.

Two thousand national farm loan associations have been organized and have made applications for loans for their members. More of them are being arranged and by the end of the summer the Board expects a substantial increase in the number. This will mean a heavy demand for funds at the opening of the planting season next spring.

It is for this demand that the Board is trying to raise funds by the sale of bonds. Members of the Board assert that the public will be aiding in the prosecution of the war as much by purchasing farm loan bonds as by purchasing Liberty Loan war bonds. In this assertion they have the support of the Administration to a large extent.

California is the leading state of the Union in government farm loans so far. Her farmers already have received \$1,450,000. Other states in which considerable amounts of money have been lent out of the original capital of the twelve Federal land banks are: Texas, \$761,000; Washington, \$491,000; Kansas, \$412,000; Montana, \$404,000; Indiana, \$307,000; Nebraska, \$243,000, and Illinois, \$111,000. Even Massachusetts, where money rates are proverbially low and where the act was reported to rouse little interest, has received a quota of \$28,000 in farm loans. The farmers of the New England states have applied for a total of \$3,000,000 in loans, but only a few of these have been granted, as the Springfield, Mass., Federal land bank was slow in getting organized.

Two joint stock land banks, the quasi-official financial institutions permitted to operate under the Rural Credits Act, have been organized—one at Sioux City, Iowa, and the other at Charleston, W. Va. Several others are in process of organization, but the Farm Loan Board does not expect to see many of these institutions come into existence in the first few years of the operation of the act.

The Farm Loan Act was signed by President Wilson July 17, 1916. In less than a year the twelve Federal land banks have been established, sixty officials have been appointed and a numerous staff of appraisers and other employees has been formed for each institution.

The Board feels that the need of the farmer for funds is a war need and is extremely anxious that the public support the pastoral securities as heartily as it has the war bonds.

The farm mortgage rate fixed by the Board is 5 per cent. The average private farm mortgage rate in the United States is above 7 per cent. The shave between the $4\frac{1}{2}$ per cent. paid for the money and the 5 per cent. received for its use will be used by the Federal land banks to pay their expenses of operation and dividends on the stock of the national farm loan associations which is held by the borrowing farmers—5 per cent. of the amount of his loan by each borrower.

It is the expectation of the Board that ultimately this difference between the bond rate and the mortgage rate can be brought down to a fraction as small as one-eighth of 1 per cent. The Board takes the position that the farmer would rather have the opportunity of borrowing considerable sums of money at low rates than receive fat dividends from the earnings on his capital stock in his farm loan association. Consequently what money is saved through perfecting the operating machinery of the Federal land banks will be reflected in a lower mortgage rate rather than in a higher dividend rate. The Board anticipates heavy expenses during the first year or two of operation of the banks because the institutions will be entering a new field. Time will be required to educate the staffs of the banks into transacting their business in the most economical manner and in learning the short cuts which will cut down operating expenses.

SECRETARY McADOO EXTENDS THANKS

President P. W. Goebel of the American Bankers Association has received the following letter from William G. McAdoo, Secretary of the Treasury:

The Secretary of the Treasury,
Washington.

June 25, 1917.

Dear Mr. Goebel:

After my return to Washington from the strenuous Liberty Loan campaign I was confined to my bed some days, and since that time the details of the Loan have occupied so much of my time that I have not had a chance to write you sooner to tell you of my deep appreciation of the splendid work you personally and the American Bankers Association, of which you are President, did for the Liberty Loan. The results show how effective the campaign was in all parts of the country and how wonderfully the masses of the American people rose to the occasion and performed a service to their country which has immensely strengthened the credit of the Government and will make more certain the successful financing of the great war in which we are engaged. In this work you and the American Bankers Association played a most important and conspicuous part. Will you not do me the kindness to express to the members of the Association, and to accept for yourself personally, the assurances of my deep appreciation? It is a great satisfaction to find such a wonderful spirit of patriotic co-operation pervading the entire country. It only shows how easy it is for the American people to accomplish the seemingly impossible when we all pull together for a noble cause.

Believe me, with warm regards and best wishes,

Faithfully yours,

W. G. McADOO.

Peter W. Goebel, Esq.,
Kansas City, Kansas.

Some Practical Queries and Answers on Certain Phases of Bank Acceptances

BY WM. G. BLISS

IT is well understood by bankers and the public generally that the acceptor of a bill of exchange is the payer of it and bears the same relation to the holder as the maker of a promissory note; also, that when the acceptor pays his acceptance, it is surrendered to him exactly as a promissory note is surrendered to the maker on payment. This is particularly true in the case of the commercial acceptance, which evidences the commercial obligation of the acceptor (the buyer of the merchandise) who is the debtor to the drawer (the seller of the merchandise); but it has not been so clearly understood in the case of the bank acceptance, that evidences the granting of a loan in which the accepting bank is the lender of its credit, while the drawer is the borrower or may be a third party who has drawn the bill for account of the borrower.

The difficulty in the minds of many is one that is largely due to training and precedent based on rulings and constructions of the banking laws by courts, comptrollers of the currency, and superintendents of state banks. These have led us to think of loans by banks as necessarily limited to loans of cash, or its equivalent, that are evidenced by promissory notes and made available by checks on the bank making the loan. We, therefore, have not readily understood that in the bank acceptance, made by a bank's writing its acceptance on a bill of exchange that is payable at a fixed or determinable future date, the bank has made a loan of its credit, placing itself to the holder in the stead of its customer, and that such a loan is fully as useful to the customer as that made in the form to which we are accustomed, the promissory note, and indeed, frequently, more useful.

The following questions and answers in regard to bank acceptances, in somewhat elementary form, will explain their use, and the form in which they should be reported in published statements (and the records that should be kept of them), and thereby may help to remove some of the difficulties:

- Q. Up to the time of its acceptance, is a bill of exchange that has been drawn on a bank the obligation of that bank, or that of the drawer of the bill?
- A. It is the obligation of the drawer.
- Q. Does its acceptance by the bank alter the obligation of the drawer?
- A. It does; it then becomes a *bank acceptance*, the obligation of the bank, and the relation of the drawer to the bill becomes that of an indorser.
- Q. What does the borrower give to the bank to show his obligation or liability for the loan of the bank's credit, as evidenced by its acceptance of the bill of exchange?
- A. He gives the bank an application for the loan of its credit, reciting the terms and conditions under which he wishes to use it or have it used; and an agreement or guarantee, which may be a part of the application or a separate document, in which, among other things, he agrees to pay the bank the amount of its acceptance on or before maturity.

From the Standpoint of the Borrower

Q. What differences are there, if any, between a loan made to a customer by the bank upon his promissory note, and one made to him by the bank when it has accepted his bill of exchange, or that of a third party for his account under his agreement as outlined in the foregoing?

A. There is no difference as to:

- (a) Their relation to his financial position, each being a loan.
- (b) The requirement to pay, each being payable at maturity.
- (c) The right to arrange with the bank to pay each before maturity under rebate of interest or discount.

There is a difference in the form in which each is made available to the borrower; in the former, the bank places cash at his disposal, either in the form of a cashier's check or the amount credited to a deposit or checking account, and in the latter the bank places its own credit at his disposal in the form of its acceptance (a bank acceptance).

There is also a difference in the evidence of payment; in the former the promissory note is returned to him, and in the latter the bank gives him a receipted bill or its equivalent, both discharging him from his obligation.

Q. If the bill of exchange is drawn by the borrower, how does he make use of it?

A. By negotiating (discounting) it at another bank or at the accepting bank.

Q. If the bill of exchange is drawn by a third party for account of the borrower, how does the borrower benefit by it?

A. Through its negotiation by the drawer at a bank and by his application of the proceeds in the manner previously agreed upon by him with the borrower. This is most clearly illustrated by acceptances under commercial letters of credit. These bills are drawn by the shipper and negotiated by him at a bank, and the proceeds applied to the payment of the invoice of merchandise shipped for account of the borrower under letters of credit.

Q. How should the borrower show his liability for the bank's acceptances on his books of account and in his financial statements that are given to the banks for the purpose of borrowing funds or credit?

A. He should carry them under the general title "Bills Payable," classing them as bank acceptances.

Q. Should he include in this the acceptances made abroad for his account in a foreign currency under the bank's letter of credit?

A. Yes, the acceptances in a foreign currency made abroad for his account should be carried on his books in that currency, and for his financial statement the aggregate should be converted into dollars and included with other bank acceptances.

From the Standpoint of the Bank

- Q. What differences are there between the two forms of loan referred to above?
- A. As *assets* there is no difference except that of title, made for the purpose of classification; both are loans.
- As *liabilities* there is a difference: In the loan of funds the amount of the loan is either placed to the credit of the borrower in a deposit account as a demand liability of the bank, which the borrower may withdraw by check, or it is paid to him by a cashier's check, which is also a demand liability of the bank. In the loan of credit the bank writes its acceptance on the draft or bill of exchange of the borrower or of a third party, and makes it payable at a fixed or determinable future date, thereby executing a bank acceptance, the equivalent of its own promissory note, which is must pay at maturity.
- Q. Would failure of the borrower to meet his note or obligation at maturity in any way relieve the bank of the obligation to meet its acceptance?
- A. It would not. The obligation of the accepting bank is entirely independent of the underlying agreement between the borrower and the bank.
- Q. Does the bank collect from the borrower on the acceptance or on the agreement or guarantee signed by the borrower?
- A. The bank collects from the borrower on the agreement or guarantee signed by him, which is the bank's asset (the equivalent of the borrower's promissory note).
- Q. If the borrower makes payment of his obligation before maturity with or without rebate of interest for the unexpired time, does the difference in the form of his obligation affect in any way the question of whether he has discharged it?
- A. Obviously it does not, for in the case of the promissory note it is returned to him; and in the case of the loan of credit he is given a receipted bill in discharge of his obligation, and in both cases the bank's loans are reduced.
- Q. Does such payment under rebate by the borrower alter in any way the nature of the bank's liability for its outstanding acceptances?
- A. Obviously it does not.
- Q. If not, is there any reason why such payment should be regarded as a deposit liability of the bank?
- A. Obviously there is none even for the purpose of classification, for the bank's liability is still an acceptance liability, and to make such distinction discriminates incorrectly between the bank's acceptances of identical character, necessitates unnecessary book-keeping entries, and requires carrying reserve against one acceptance and not another. Moreover it acts as an unjust reflection upon the administration of a bank to require a reserve to be held against any acceptance obligations since they have fixed maturities that are known to the bank, and any man competent to fill an official post in a bank must provide for their payment exactly as the merchant must provide for his bills payable.

NOTE—It is probable that the theory that the payment under rebate constitutes a deposit is due to two causes:

- (a) Misapprehension of the nature of the borrower's obligation.
- (b) The usual wording of his undertaking that he will provide funds for payment of the bank's obligation.

- Q. May a bank buy in its own acceptances?
- A. It certainly may do so if in its judgment it is a wise use of available funds, for thereby it reduces its outstanding acceptance liability.
- Q. Does it reduce its liability by purchasing its own acceptances? Are not such purchases assets similar to the ordinary purchase or discounting of paper? May they not be sold or rediscounted?
- A. 1. It is correct and sound practice for a corporation to offset its liability by any part of such liability which it may have acquired by purchase or otherwise, regardless of its ability or right to reissue the same. In fact, to do otherwise is incorrect practice. This is illustrated by the practice of receivers in a liquidation; by the requirement that banks shall not carry their own circulation as an asset; by the invariable practice of corporations in regard to their own stocks and bonds bought in, which until resold or reissued are deducted from their stock and bond liability.
2. The purchase by a bank of its own acceptances does not constitute the purchase of an asset, although for bookkeeping and record purposes a debit account of such purchases may be carried. A bank's statement should show as assets only that which is available for the liquidation of its indebtedness to depositors, stockholders and others, and its own acceptances when bought in are not of this nature as indicated by the practice in liquidation.
3. A bank may at any time before maturity sell or rediscount its own acceptances which it has bought in when in its judgment it is desirable to do so; and automatically then its acceptance liability is increased by the amount sold or rediscounted.
- Q. Is there any sound reason why the amount of this form of loan (loan of the bank's credit) and that of the bank's liability for acceptances should be required to agree on the published statement of a bank?
- A. No, there is none, for as has been shown, the amount of a bank's acceptances (its liability), and the amount of the loans of its credit (its asset) are subject to reduction from differing causes, so that to arbitrarily make them agree conveys an incorrect idea of their true position. It may also be pointed out that while the law regulates the total amount that a bank may accept, the amount that the bank may safely loan to any one borrower, whether of funds or of its credit, is a question of banking judgment within dissimilar limits imposed by the law, and the vital question is therefore not one that concerns aggregate totals that are made to agree on both sides of the statement.
- Q. Should a bank show its liability for acceptances made for its account by another bank in the same way that it shows its own acceptance liability?
- A. It should, but where these acceptances are made in a foreign currency, it is preferable to carry the controlling account of such acceptances in the foreign currency, and to convert the aggregate into dollars daily, or for the published statement.

A Country Banker's Views on Benefits of the A. B. A. to the Country Banker*

BY GUY E. BOWERMAN
Member Executive Council for Idaho

JUDGING others by myself, I doubt if all of you are acquainted with the real activities of the Association prompted by a desire to be of substantial benefit to all the financial institutions which compose its membership, and especially the small country bank; for, contrary to an opinion which seems to prevail in some sections, it is not an organization in which the larger banks of the country are especially favored. It is probably true that these larger institutions most frequently avail themselves of the advantages which the Association offers, or probably more fully realize their value, and are in consequence getting the most out of it. But this is no fault of the system; rather it is that of the country banker who fails to take advantage of his opportunities, and the principal object I have in addressing you is to urge those who have not already done so, to use to the fullest extent possible the resources of this great Association.

If you have any idea that you are not an integral part of the Association and that your membership as a small bank does not in fact represent anything beyond the contribution annually of your dues, I would advise that you make an honest effort to prove to your own satisfaction that such is not the case, for as a matter of fact, the absolute control of the A. B. A. rests with the banks having a capital of \$100,000 or less. The number of such banks is over 10,000 of an entire membership of about 16,500, so primarily it is a small bank organization, or an organization of small banks, if you please. I emphasize this statement for the reason that in soliciting membership from the non-member banks in Idaho, the objection most frequently advanced as a reason for not taking membership is that the small bank was not really and actually a factor of any particular consequence. Even if this should be true, which it is not, it would not prevent us from availing ourselves of the advantages to be gained by freely using the different departments which are organized for just this purpose. The real trouble is, we do not as members of the A. B. A. get the beneficial results to which we are entitled simply because we do not use the material at our command.

The History of the Association says: "The American Bankers Association was organized in 1875 for the purpose of securing uniformity of action by the bankers of the country through co-operative effort, for mutual protection against loss by crime, to secure much needed legislation affecting banking interests and to study and assist in giving technical form to proposed legislative measures.

"The first step toward the organization of the Association was taken on May 24, 1875, when there was a conference of bankers in New York City. The result of this conference was the issuance of a call for a convention at Saratoga. The convention was held on July 20, 21 and 22 following; over three hundred bankers, representing thirty-two states and territories, were present. At this convention a committee of nine was appointed to draft a

constitution and by-laws. The organization of the Association was completed at the second convention, which was held in Philadelphia, October 3, 4 and 5, 1876; officers were elected and a constitution and by-laws adopted."

The preamble, if one can call it such, states there were three fundamental principles on which the building of this Association was to be based: Co-operative effort for their general welfare, mutual protection against crime and fraud, and a desire to have some voice in forming and directing legislative measures which might affect them. After over forty active years of growth and development, these three great underlying principles remain unchanged, and the thought and desire of the Association is now, as then, to encourage unified action among its members, constantly increase the measure of protection, and assist in securing beneficial and intelligent laws to strengthen, safeguard and inspire confidence in the financial institutions of America. What has been accomplished has been written into the financial history of the United States, and will prove an interesting study for those who care to devote their time to it.

As the possibilities of the organization became apparent, under wise guidance and progressive leadership, new methods were undertaken, new ideas accepted and new features added. The administration of its affairs has been honest, capable and without prejudice, and singularly free from political influence, all of which were contributing factors in its upbuilding; until today, with all its various ramifications, it stands as a splendid monument to the best thought, ability and accomplishment of those who have done their part in its construction.

It is said the primary object of this first convention was in fact for the purpose of providing ways and means, through unified effort, to protect the banks of the country against professional criminals, who were at that time, and had been for several years previous, particularly active in their operations against banks. It was not until nearly twenty years later that the Protective Department was organized and equipped for the really splendid work it has since done, and in this connection I may say that the prosecution of crimes against member banks has been so relentless, persistent and successful since the organization of this department that the ratio of burglaries or attacks as between members and non-members is over three to one; in fact, the report of the Protective Department under date of March 31, 1917, shows non-member attacks as 1591, with losses amounting to \$2,242,944, as against 485 attacks on members, with losses of \$298,359, which shows a saving, or difference at least, in favor of the Association member of nearly two millions of dollars. It is said that now the first step of the professional safe-blower or hold-up man who contemplates a bank raid is to ascertain whether or not the object of his intentions is a member of the A. B. A., and if so, to go elsewhere; and instances have been reported wherein the bank building was entered for the purpose of burglarizing the safe, the membership sign of the A. B. A. noticed and the undertaking abandoned. Whether true or not, it is a fact that crime and fraud against member banks has materially de-

*Address before the Idaho Bankers Convention.

creased each year since the organization of the Association. This protective feature alone should especially appeal to the small country banks for the reason that, of late years, banks in this class have been the objects of attack almost exclusively, and for the further reason that the ferreting out, prosecution and conviction, if possible, of the perpetrators of the crime are conducted without expense to the bank. So it would seem to me that the sense of security in this regard which a membership in this Association warrants, or if not a feeling of security, the knowledge at least that crimes or attempted crimes upon your bank will have immediate, vigorous and intelligent attention, would be sufficient inducement for every bank in Idaho to claim, through membership, the protection which this department offers.

It is probable that the founders of the A. B. A. did not realize or anticipate the possible expansion of its activities, although I do not know but what the three cardinal principles laid down at that time were broad enough to cover them. But in any event, through a constant effort to multiply its usefulness, and a conscientious effort to broaden its field of operation, new features were constantly added to the work of the Association. The first important departure from the old order of things was the creation of the various Sections of the Association, the first of which was the Trust Company Section, in 1896. Then followed the Savings Bank, the Clearing House, the State Secretaries, the State Bank and the National Bank Sections. The object of the organization of these Sections was that those engaged exclusively in the different lines of banking mentioned could to better advantage serve their particular interests by discussing them apart from the general Association. These different Sections are governed by officers and committees of their own selection, but their official action must be ratified by the parent Association. It was considered as a possibility that the general Association might be sectionalized to death, but quite the contrary has proved the case, as the different Sections have stimulated interest, strengthened the membership and given entire satisfaction.

Then followed the organization of the American Institute of Banking in 1890, its object being "to afford facilities for study to bank employees and to promote and encourage educational work among them."

There is an increasing tendency and willingness to recognize banking as a profession for which education and special training are necessary, and it is the purpose of this institution to assist its members in obtaining both, and for those who are not situated so as to be active Chapter members, a correspondence course is maintained. I am not familiar with its curriculum, but I do know that some of the brightest young men in our banking circles today and those who give promise of greatest achievement laid the foundation for their success through this Institute of Banking, and I most earnestly recommend it to all young men who are now engaged in the business, or in the future hope to be. The opportunity given here to know at least something of the history, ethics, theory and application of the underlying problems of the banking business are worth taking advantage of.

Then came the organization, or rather the re-organization, of the Legal Department by the creation of the office of General Counsel, making this division of increased value and usefulness. The direct benefit of this department to the small banker lies in the fact that the General

Counsel will at any time furnish legal information and give opinions on questions of law submitted to him.

Operating in conjunction with the Legal Department is a Committee on Federal Legislation, to which, as an auxiliary, there has been recently added a Federal Legislative Council. This committee keeps in close touch with all proposed Federal legislation affecting banks, and makes an earnest effort to eliminate or modify those features which would place unjust burdens upon the banks or are economically unsound, and to encourage and assist in the passage of those measures which tend toward better banking methods and uplift. Credit must be given this committee for securing a reduction in the special bankers' tax, which resulted in a saving to the banks of over one million dollars, and for the passage of the Uniform Bill of Lading Law, which makes common carriers responsible for the existence of goods receipted for by their agents. This committee is also largely responsible for the adoption of the Uniform Negotiable Instruments Law in all states except four—California, Georgia, Maine and Texas. The effort of this Committee to work in harmony with the Federal Reserve Board has not been without its reward in bringing about a better understanding between the Board and the Association.

It would be impossible, in the time allotted, for me to sketch even briefly the work of the different departments and committees which constantly labor to accomplish each year some particular good for the association members. The record of the things done is easily obtained by those who are interested, by referring to the annual reports published by the Association, the covers of which, I will wager, have never been opened by a very large majority of the members.

But to mention a few will not take long and I do wish to call your attention to these in particular:

Over 1,000 legal opinions have been given to members. A Cipher Code has been perfected and published.

A Thrift Campaign was launched, which it is estimated has added over one million new savings accounts to the banks.

A copyrighted form of Fidelity Bond and a standard form of Bank Burglary Bond has been adopted, and are being written by a number of companies for members of the Association, who should insist upon these forms only being used.

An Agricultural Commission is intensely alive and resourceful in its effort to assist the farmer, and is publishing a wide-awake paper, known as the *Banker-Farmer*. This movement merits the active support of every banker in America.

The JOURNAL of the American Bankers Association is a publication of merit issued to the members monthly, and in addition to giving details of the activities of the different committees and Sections and the American Institute of Banking, carries many valuable legal opinions, articles of unusual interest on current events and profitable discussions.

There is an Insurance Committee appointed for the purpose of securing data and compiling statistics regarding the present rates paid by banks for their fidelity and burglary insurance. The theory is that "Bank risks are a preferred class in all lines of insurance and banks should insist upon being recognized as such and not be made to carry the burden of less desirable risks." The probabili-

ties are that unless more favorable rates are secured, some form of mutual insurance will be effected within the Association.

I think one of our most valuable possessions, and the one which gives promise of greatest development in the future, is the Library. There are possibilities of its becoming a great storehouse of real information, economic facts and scientific business knowledge, which in my opinion must be applied to American business methods, especially in the direction of eliminating waste if we are to bear without fatal consequences this great calamity which has overtaken us. For I believe that one of the results of this war will be the absolute necessity for new, better and more scientific methods of conducting our business. It seems to me this must be so if we are ever to recover from the terrible waste which is second only to the appalling loss of life in this great world war.

Efficiency, which means the ratio of effect produced to the energy expended, must be a living vital force with us. I am not prepared to suggest in what manner this new order of things may be introduced, but it is a matter worthy of your most serious consideration.

It may be that now is the time for us to lay the cornerstone of this new industrial, commercial and agricultural edifice, and I have the most profound confidence in the capacity of the American people to meet the issues promptly and successfully. It might be advisable for this Association to undertake a survey of the natural resources of the state, secure definite information as to what is manufactured within the state and what raw material is being shipped out and returned to us in the shape of finished product, ascertain how much arable land there is uncultivated and whether it lacks capital or labor or enterprise of the owner. The possibility of compiling statistics of inestimable value is almost unlimited, and while it cannot be done without an immense amount of labor if delegated to a few individuals, it can by co-operative efforts be easily accomplished.

After the survey of the different states had been made, the material secured should be placed in some central depository, where it would be easily accessible for general use, and I know of no better place than the Library of the American Bankers Association. It would be an everlasting credit and source of gratification to the bankers of Idaho, and an example for other states to follow, if something along the line mentioned should be undertaken.

Getting back to the advantages of the Association to the country banker, I might say that if the question of being and having a part in an organization which is constantly working for those measures and things from which you receive benefit does not appeal to you and you wish to reduce it to a purely commercial proposition, I am sure an investigation will prove that as a matter of investment and of immediate and direct returns, you cannot use elsewhere to as profitable account the small annual sum required as dues.

The annual meetings of the Association in the fall of the year are, in my opinion, rather cumbersome and bulky, owing to the large number in attendance, but the spring meetings of the Executive Council are delightful and interesting, and it is a genuine pleasure to attend owing to the comparatively smaller number and the ease

and freedom with which acquaintances are made and the general feeling of good-will and good fellowship which prevails. All sorts of subjects are discussed, some of no particular interest, some amusing, but a large majority of them are of vital interest to the entire banking community. As an illustration of the amusing, a protest was made as to the usual manner in which the banker was depicted in all moving pictures; in a vast majority of cases he is presented as cold, hard, grasping and filled with rapacity. In fact, the picture shown illustrates and presents the habits, character and conduct of the banker in a manner calculated to terrify the young, astonish the middle-aged and haunt the old. All of you know how manifestly untrue and unfair this is, and will agree with me, I think, when I say there is no more lovable character, no better guide, philosopher and friend here below than the banker.

It was my privilege at our last meeting, from which I have just returned, to listen to an address during the annual dinner by Major Charles W. Gordon of the Forty-second Canadian Highlanders, known to most of you as Ralph Conner, author of "Black Rock," "The Sky Pilot," and other books, who has just returned after eighteen months in the trenches in France. It has no doubt been the privilege of all of us at some time in the past to listen to men who impressed us with their honesty of purpose, their clear-sightedness, their freedom from ulterior motive and the God-given conscience to present conditions and facts as they really exist, and so Major Gordon impressed me and all of those to whom he talked that evening. After eighteen months' service in the field, after a year and a half of observation and study, he is here in America for the purpose of making us realize, if possible, our great undertaking. He has no illusions about this war, no hope of early peace, no picture of easy victory, but he did present, speaking from the fullness of his knowledge and the love of mankind which is in his heart, what England, France and Canada have sacrificed and suffered that the world might be free from autocracy and that liberty and equality might be the heritage of our children. If any of you who are present think we are not at war, be undeceived; we are at war with the most gigantic military power of the earth, who is stronger in men today than she was three years ago, and to whom any form of peace is not acceptable except upon her own terms, which are chiefly territorial acquisition and huge indemnities. It seems to be the general belief that for twenty-five years Germany has prepared for this struggle; for a quarter of a century Germany has believed that by divine right it is her duty to place the mantle of her Kultur upon the shoulders of all mankind.

We do not realize that we are at war yet; it's hard for us of the interior to really understand and believe that war for us exists. There has as yet been but little to awake the consciousness of America to this fact, but unless those with whom I have been in touch for the past thirty days are all wrong, unless those who at least should know something of the actual conditions which confront us are entirely mistaken, we will soon be brought face to face with the stern realization that war with all its horrors is upon us. So far as what the future may have in store for this beloved America of ours is concerned, I do not know, except that we shall be victorious.

Making of Bank Notes, Known to the Chinese, Most Highly Developed by Americans

BY ALEXANDER DEL MAR

THE excellence in the art of treasury and bank note printing which has been attained in modern days and which is seen in its greatest perfection in the United States of America, is not a gift of the gods, but the result of a series of antecedent efforts, which began almost with the dawn of history. To produce artistically excellent paper money requires excellent paper, excellent ink, excellent engraving and excellent presses. All these materials, devices and inventions have their separate history.

Before the invention of paper money the Carthaginians had a parchment money, which is alluded to in the Socratic dialogue on "Riches" written about 400 B. C., and even this form of money may have been borrowed, like many other of our inventions, from the Orient. During the reign of Woo-tee, the fifth emperor of the Chinese dynasty of Han, of whom Father Du Halde says he was a Confucian, parchment notes were issued as money. As at this period Bengal, Siam and Burma were under Chinese dominion, it is not improbable, judging from the practice of later nations, that these notes were employed as substitutes for the precious metals, of which the conquered countries had been despoiled. The Woo-tee notes are described as being a foot square and of the denomination of 40,000 chuen, or 40 taels. When block letter printing was employed upon books, about 95 B. C., pasteboard notes were printed and circulated in China; and Martin vouches for the present existence of at least one specimen of them. When or in what manner the invention escaped to aboriginal America is undetermined; but it was certainly known to the Aztecs and according to Brinton, it dates from a remote period. Taking into consideration the double combination of paper and printing, it can hardly be regarded as a distinct and separate invention. Specimens of both the paper and block letter printing of the Aztecs can still be seen in the great national museums; though none of it, so far as known, has been recognized as paper money.

The next issues of Chinese pasteboard money were in A. D. 605-18, reign of Yang Kuan, of the Tsui dynasty, and A. D. 806, reign of Heen Sung, of the Tang dynasty. These notes were payable and paid in copper coins and copper plates. Like their predecessors, the notes were a foot square and printed in block letter. Small notes of one tael each also made their appearance during this period. They all bore the legend "T'ang kuan tung pao," or current money of the Tang treasury. None of these notes survive; but from the description given of them they probably resembled the Japanese kinsatsu of a later period. In 997 there were 1,700,000 taels and in 1021 over 3,000,000 taels of these or similar notes in circulation. The civil disorders which preceded the Song dynasty gave rise to issues of small notes by private bankers in Sze Chuen and other provinces of the Empire. By the year 1032 more than 1,250,000 taels of this money, called *tehilse*, were in circulation, when the Imperial government enforced their payment and the bankers, who had issued them, all went into liquidation. In 1131, reign of

Kau-tsung, or Prin-tsung, the Imperial government issued two new series of printed notes, respectively called *kiao tsu* and *hwui tsz*, until in 1167 they amounted to nearly forty-four million taels.

In 1215 China was conquered by Genghis Khan and in 1236 Mongol paper notes began to supplant all the previous issues. New series were issued in 1260 to 1263 and again in 1264-94, until in the year last named they amounted to about 375 million taels, which, if of silver, would equal about 500 million silver dollars, or pesos-de-a-ocho. As we shall presently see, it was these Chinese issues of paper money in the twelfth and thirteenth centuries which gave rise to the issue of paper money in Europe.

In the reign of Woo Tsung, 1309-13, a new issue, which has been called the Third Mongol issue, was begun in China; but this money, owing to its excessive emissions, depreciated so rapidly as to give rise, in connection with other circumstances, to a revolution of government, which ended with the overthrow of the Mongol dynasty and the restoration of a native Chinese or Ming dynasty, beginning with the emperor Hung Woo, in 1368. Of the paper issues of this monarch there survive but four known speci-



Treasury note, Ming dynasty, A.D. 1368; one-third length. —Legend: Ming paper currency. One thousand taels ("cash"). In accordance with the requirement of the Treasury Board, it is ordered that the Paper Notes duly stamped with the Imperial seal of Ming shall pass current in lieu of bronze coins. Counterfeiting is punishable with death. The informer, upon conviction of the criminal, shall receive a reward of 250 taels, and be entitled to all the property, real and personal, of the condemned. Year, month, and day of the reign of Hung-wu. (Imperial seal in red.)

mens, one each in the Hermitage Museum of St. Petersburg, the British Museum, and two in private collections. It is from one of the latter that the accompanying illustration is taken. This note is about thirteen inches long and nine inches wide. It is printed on a gray or whitey-brown felted paper, somewhat thick and evidently made

from bamboo fiber, with perhaps some small admixture of silk dross. The printing is in black, with the exception of the treasury seal, which is in red. The type is block letter. The legend is as follows: "Ming paper currency. One thousand tsien. In accordance with the requirement of the treasury it is ordered that the paper currency duly stamped with the imperial seal of Ming, shall pass current in lieu of metallic money. Counterfeiting will be punished capitally. The informer, upon conviction of the criminal, shall receive a reward of 250 taels and be entitled to all the property, real and personal, of the condemned."

As this is not a treatise on paper money, but on the printing of such money, it will not be necessary to pursue the history of Chinese paper notes any further. We now turn to the development of the art of bank note printing in Europe. In A. D. 862-879, during the reign of Ruric, the Gothic king of Novgorod, now included in the Russian empire, there were issued certain parchment or pasteboard notes, it is uncertain which, but in either case evidently in imitation of the issues of Heen Sung of China. These Gothic notes were issued and employed for the settling of balances (permutation) at the great International Fair which was annually held, and is still held, in that ancient city. A description of the fair appears in the Gothic saga called *Flateyjarbok*, written during the eleventh century. The notes are described as being "stamped," but whether this means printed in block letter, as were their prototypes, the notes of Heen Sung, cannot be determined, no specimen of them having survived.

Leather or parchment moneys, some described as being "stamped," were also issued by the following European monarchs or governments: A. D. 959-75, Edgar, king of Wessex; 998, Olaf I, king of Norway; 1060-1103, Philip I, king of France; 1122, doge Michieli, at Tyre; 1154, William the Bad, king of Sicily; 1215, John, king of England; 1235, Frederick II, at Milan, 1241 at Faenza and 1248 at Parma; 1251, Louis IX, king of France; 1285, Edward I, king of England; 1364, John II (Charles V, regent), king of France; 1586, San Domingo and Puerto Rico; 1656, Francesco Cornaro, doge of Venice; 1658, paper "transport" notes, Bank of Stockholm. Among these various issues, the only ones which need any further mention in the present connection are the parchment notes of the doge Michieli at Tyre and an issue of paper (not leather nor parchment) notes by the emperor Frederick II, at Milan in 1240, five years after his issue of leather notes at the same place and a year before his issue of so-called "parchment" notes at Faenza. As it is improbable that he issued paper notes in 1240 and a year afterward issued parchment notes, we must suppose that the word parchment in this instance meant paper, the Latin term for which was papyrus and for the other, pergamena. Of the Milanese issue, says Arthur Young, "This is the origin of all (the paper money) that has passed since in Europe"—an observation which is only correct when strictly applied to circulating notes made of felted paper.

In that vast and lucrative commerce with the Orient which the Arabians enjoyed from the ninth century until it was wrested from them by the Portuguese and Spaniards in the sixteenth century, it is impossible to suppose that they failed to bring into the west a knowledge of paper money. They manufactured felted paper at Samarra and immediately after its capture in 704 and within a few years extended its use throughout their possessions in the west, which at that time stretched from Persia to

Spain. Felted paper from vegetable fibers was introduced into Italy some time during the eleventh century, and paper from linen rags in the twelfth century, at which period block printing on cloth, vellum, etc., made its appearance in various parts of the Roman empire. It is therefore not improbable that the issues of Frederick II, like the Chinese issues of many centuries earlier, were printed from blocks. Frederick had lived for years among the Saracens of Sicily and Asia Minor, he was well acquainted with their arts and was, in fact, more than half a Saracen himself. It is unfortunate that no specimen of this first of European paper moneys has been preserved from the ravages of time. The earliest wood-cuts mentioned in Ottley's "History of Engraving," are those of an Italian family by the name of Cunio, who are supposed to have brought the art from Venice, where it was doubtless acquired from Constantinople upon the conquest of that capital in 1204.

As before stated, the first leather moneys of America were issued in San Domingo and Puerto Rico. The first paper money (notes printed on felted paper) appears to have been issued in America about 1674 by a bank in South Carolina, where Robert Patterson got his suggestions which, twenty years later, were realized in the foundation of the Bank of England. A similar bank, issuing paper notes signed by John Blackwell and six other persons was in 1686 organized in Boston, Mass. It was during this period, 1685 to 1714, that the French colonial officials issued the "Playing Card Currency" of Canada, made of playing cards, upon which the denominations were stamped and the signatures written. An account of this curious issue appears in the Appendix to the writer's "History of Money in America." In February, 1690, the Colony of Massachusetts itself issued paper money and in 1692 these notes, then amounting to about forty thousand pounds sterling (say two hundred thousand Spanish silver dollars) were made full legal tenders, except in special contracts. This omission, commonly but erroneously associated with the Phipps' Expedition of August, 1690, may be regarded as practically the first issue of paper money in America. The notes were printed on felted paper, with movable types, in black ink, and signed with pen and ink, by three Colonial Commissioners. One of these notes is believed to be still in existence.

Between this date and the Continental paper moneys of 1775 numerous issues of similar moneys were made by the British American colonies, usually in defiance of royal authority, most of them especially and specifically interdicted by the Crown, and all of them made the occasion of such severely repressive measures as to form one of the principal sources of discontent which led to the Revolution.

In May, 1775, the Continental Congress authorized an issue of two million dollars in paper notes; in July another million; and in November three millions more. This was only the beginning. By the close of 1779 they amounted to two hundred and forty-two millions, afterwards called "Old Tenors." Besides these Continental notes there were immense issues of Colonial notes (issues of the separate colonies) both public and secret; and on top of all, so great a mass of counterfeit notes as probably doubled the entire circulation. The notes were printed on coarse felted paper; the emblems and sometimes the legends were engraved on wood; or set up in type. The ink was of poor quality and there was no mechanical safeguard against counterfeiting. Such was the virtual

beginning of paper money in the United States of America, for we omit from view, as in the present connection unimportant, the issues of the French Banque Royale ("Mississippi Scheme") in Louisiana and, also certain local emissions in the French American colonies, both of which are of comparatively trifling importance. We are now prepared to follow the more modern development of the mechanical art of producing paper money.

In 1766 the standard money metal of British India was changed by law from copper and billon (villon) to silver, causing a great withdrawal of silver money from Holland, England, France, Spain, etc., and numerous bank failures. In 1768 the Bank of Russia stopped payment; 1783 Caisse d'Escompte of France; 1790 Bank of Amsterdam; 1793 one-third of all the banks (seventy-one incorporated and 400 private banks) in England; 1797 Bank of England; and immediately afterward, the Banks of Ireland, Portugal, Venice, etc.; all of which stopped payment. During the suspension of the Bank of England, which lasted until May 1, 1823, a vast number of counterfeits of its issues appeared in circulation, to the great alarm of the directors. Among the proposals offered to remedy this evil was one from the leading bank note company of America, a country which had always and still holds the palm of merit in the art of bank note engraving and printing. Among other notable improvements, the most conspicuous was that of the geometrical lathe, the invention of Asa Spencer, a watchmaker of New London, Conn. A geometrical lathe had previously been employed to engrave the backs of watch cases; Spencer's invention was the improvement of the lathe and its adaptation to bank note engraving. So soon as he showed it to the American bank note engravers and printers they recognized its value and obtained the right to use it. Another invention of the same period was that of Jacob Perkins of Newburyport, Mass. This consisted of engraving upon soft steel by the methods used for engraving copper and afterward of hardening the steel and transferring the engraving, by pressure, upon softened plates of the same metal, which in turn could be hardened, so as to produce several fac-similes, all of equal efficiency for the purpose of printing.

In response to rewards offered by the Bank of England, both of these inventors, accompanied by other gentlemen connected with the American bank note engravers, went to England, in 1818, taking with them specimens of their skill and machinery and submitted them to the investigations of experts appointed by the Bank of England. The result is embodied in a report published in 1819, the gist of which is characteristically British. It is as follows: The American machinery, designs and work all belong to the highest development of bank note engraving and are admirably calculated to defeat and prevent counterfeiting; but as a practical safeguard and as applicable to England, we have more faith in the hangman; meaning of course the penal laws of England, which punished forgery with death. From that day to this, the Bank of England note has remained almost in its archaic form, virtually inviting forgery and depending for its immunity from counterfeiting upon high denominations (five pound notes) frequent redemption and re-issue; and the written endorsement of the parties presenting the notes for payment. Nevertheless, the British bank note engravers retained Mr. Perkins, claimed him as an Englishman and

employed his methods, since superseded by further improvements, also made in America.

The report of 1819, printed twelve years after the publication of Lord Liverpool's celebrated "Letter to the King" and nine years after the report of the Bullion Committee of the House of Commons, contained some information which in the present connection it will be useful to recall. The bank note of that period was printed from a copper plate, sometimes from one entire plate, sometimes with the vignettes, emblems and scrolls from a copper plate and the legends or written portion from printers' type. It was stated in the report that a copper plate would not yield more than 3,000 to 6,000 impressions, before showing signs of wear and decay. Hence the issue of one pound notes when struck from copper plates was unremunerative, on account of the expense of producing new plates. On the other hand, a steel plate would yield twenty or thirty times as many impressions; and although it was contrary to British conservative policy to entertain any novelty, it was believed that this one (steel plates) might be, at all events, safely tried. As a matter of fact, engravings on iron, if not also steel plates, date back to the early part of the sixteenth century; and some of the plates still survive. One of them is in possession of the writer.

The suspension period of the Bank of England, 1797-1823, was the halcyon age of bank note engraving. Banks innumerable rose and fell, not only in England, but in America; and the engraving of their notes rapidly grew into a well organized and resourceful industry. In England, between 1793 and 1826 over a thousand banks failed; in the United States of America, in 1810, 1814, 1819 and 1825, nearly all the banks of issue failed. The cause of these widespread disasters was the prodigious efforts made by the Bank of England to resume coin payments; a result which it only achieved at the cost of all the smaller banks, whether in England, America or elsewhere. Meanwhile, the engravers who had supplied notes to the banks that failed, now and with equal impartiality, supplied notes to the newer banks which had supplanted the bankrupts. It is an ill wind that blows nobody good; and while the banks all over the commercial world went up and down, always dancing to the music of the great financial regulator in London, the engravers steadily rose and prospered. The Americans always kept the lead—a fact easily perceived upon comparing their productions with the contemporaneous ones of any other country.

The art of engraving upon copper plates is traced by Father Du Halde to the Chinese, 1120 B. C.; the name of Aholiah, "an engraver and a cunning workman" is preserved in Exodus, xxxviii, 23; engravings on stone, brass and signet rings are alluded to in several passages in the Scriptures; we have numerous copper-plate inscriptions from India and Babylonia, dating long before the Christian era; Herodotus, who wrote about 450 B. C., mentions Greek maps engraved upon metallic plates; and the Romans engraved their fasti, senatus consulto, public edicts and other important documents upon copper plates, some of which, for example, the Last Will and Testament of Augustus Caesar, still survive. Besides this we have coins of a very high antiquity which were engraved in India, China and the countries of Asia Minor. For beauty and delicacy of treatment, the Greek and Sicilian coins of the fourth century B. C. have not only not been excelled, they have not been equalled in modern days. But there is no known employment of such engravings for

the purpose of reproduction or printing upon parchment, papyrus, or paper, anywhere in the western world. The merit of this art, so important and prolific in its influence upon the general progress of mankind, belongs, like the original art of engraving upon copper, to the Chinese, whose paper money, above mentioned, appears to furnish the earliest examples of printed engraving of which any positive knowledge has come down to our time. In tracing the progress of bank note engraving we therefore ascend to the most ancient printing from wooden blocks of which any actual remains survive; and as paper money marks the origin of printing in China, so also does it appear to have marked the origin of printing in Europe, to wit, the paper notes of Frederick II.

Modern bank notes are engraved either altogether on a single plate, or as is now commonly practiced, on separate pieces of steel. The vignette, which may consist of a portrait, an allegorical figure or group, or a landscape, forms one or more pieces. The denomination, say of 1, 2, 5, 10 or 100, forms another piece, or number of pieces. These are usually engraved upon a background of geometrical lathework, upon which the denomination is cut in large figures. The legend, or name of the bank, together with the promise to pay, etc., form another piece; and the signatures, now usually engraved, form still another piece; or the whole may be assembled and transferred to a single plate. On treasury notes the back is also composed of an assembled plate, in which the geometrical and scroll work is conspicuous. The treasury notes have also an engraved seal stamped upon them, also a distinctive number, which is printed last of all. Some of the work, notably the endless repetition of the denomination, in microscopic letters, is done with a machine called the pantograph. The operator has before him, say the word five, in large letters, engraved upon a metal plate. This word he carefully traces with one arm of a lever, the corresponding arm of which retraces and engraves the same word on a steel plate in characters almost too minute to be read without a lense. The point of the first arm is of steel; the point of the second arm is a diamond. The action of the latter is not that of stamping dots, as in the ancient pantograph, it is that of a burin or graver; it does not stamp dots, it digs or plows lines. The beauty and delicacy of this work, nearly all of which is executed by machinery, too costly to fall within the means of forgers, can only be fully appreciated when examined under a lens.

The American treasury notes are printed in three colors. The assembled plate of the face is printed in black; the seal and at least one of the denominational figures are printed in red or blue; and the back is printed in green or orange. Therefore the note has to be subjected to at least three separate impressions; one for each color. Sometimes a fourth color is added, which necessitates an additional process, the object of these various colors being to defeat counterfeiting by photography, which, though faithful to the original in copying the design, is incapable of copying the colors. The paper is of felted linen, into which are introduced fibers of silk dross. Another variety is the introduction of "planchettes" into the felt, both of the processes being difficult to imitate. In some kinds of treasury and bank note paper a water mark is introduced; but this device has long since been abandoned as useless against counterfeiting. However, it is still used in the paper upon which the Bank of England notes are printed,

as well as in some other bank note paper. The inks, both those used by the American government in its Bureau of Engraving and Printing and by the leading bank note printers, are manufactured with great care and by secret processes.

After the manufacture of the paper, the first process is that of counting sheets; the next is that of soaking the sheets. This is done with cotton or linen cloths and is a very tedious, though absolutely necessary process. The various processes of printing then follow. These are too familiar to the reader to need any extended description. The sheets of printed notes, usually four notes to a sheet, are then placed in wire racks to dry. Next they go through a numbering machine, which, at each revolution, changes its number automatically, so that the same number is never repeated. The changes from digits to tens, from tens to hundreds, from hundreds to thousands, etc., are effected by means of a rotary machine, based on the principle of the ancient Chinese *swan pan*, but improved and subjected to mechanism by the celebrated Pascal, a French mathematician, about 1650. The same principle is now employed upon an endless variety of arithmometers, calculagraphs, machine registers, cash registers, car clocks, etc.

The next process in the manufacture of treasury notes is stamping the seal of the Treasury Department. This is done upon a rotary press. Although this is nominally the "final process" employed in treasury printing, it is not so absolutely. The sheets have yet to be cut apart into separate notes and, moreover, they have to be pressed, a process of considerable importance. With this object they are placed, before cutting, between sheets of cardboard and subjected in a hydraulic press to a pressure of about 500 tons. After this they are taken out and cut. There is also a "sizing process," one that gives to the notes that smooth and especially that crisp characteristic which distinguishes newly made paper money.

There is still another process to mention, and this is by no means an unessential one; for so numerous and varied are the attacks of forgers and thieves upon money of any kind, made of any material, or in any way, or transported in any manner, that the greatest care has to be taken of it in all its processes, from the original material, to the perfected notes. This absolutely final process is the packing of paper money for transportation. The notes are packed in tin cases, hermetically sealed, and impervious to water or damp. The tin case is then entwined in a wire netting, the ends of which are sealed with leaden seals, and the whole so designed that it may be determined at a glance whether or not the tin case has been violated. Thus prepared, the tin case is enclosed in a strong wooden box and the notes are ready for transportation.

During all of these processes, from the time when the raw paper is received at the engraving and printing establishment to the moment that the perfected note is packed for transportation, every sheet of paper is carefully inspected, registered and charged against each employee through whose hands it passes; so that the absence of a sheet of paper and the person responsible for such absence can be at once detected.

We have designedly omitted from view the various processes of engraving and etching which are employed in the preparation of the plates. Although they are of prime importance, their description would carry the present article beyond due limits.

LEGAL DEPARTMENT

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THE NEW AMENDMENTS OF THE FEDERAL RESERVE ACT

PRESIDENT WILSON on June 21 approved the bill containing proposed amendments to the Federal Reserve Act recommended by the Federal Reserve Board and it is now a law. The changes made in the act will be briefly summarized:

1. Domestic branches of Federal reserve banks. Under the law, before amendment, Federal reserve banks were required to establish domestic branches within the Federal reserve district. The amendment empowers the Federal Reserve Board to enforce this provision of existing law.

2. Assistants to reserve agents. This abolishes the title and office of deputy Federal reserve agent and authorizes the Federal reserve agent to appoint one or more assistants.

3. Admission of state banks and trust companies. The former law is modified with a view to making the system more inviting to state banks and trust companies. A summary of this amendment, which has now become law, is published in the JOURNAL for May, 1917, at page 897.

4. Extension of collection facilities to non-member banks—reasonable charges for collection. The former law is amended so as to permit non-member banks to maintain an account with the Federal reserve bank and have its items collected by the Federal reserve bank. A further amendment provides "that nothing in this or any other section of this act shall be construed as prohibiting a member or non-member bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks."

5. Acceptances. A proviso is added empowering the Federal Reserve Board to authorize any member to accept foreign bills of exchange not exceeding in the aggregate at any time 100 per cent. of its paid-up capital and surplus with a limitation of domestic acceptances of 50 per cent. of capital and surplus. This restores a provision which was by error stricken from the act in the amendments of September 7, 1916, which gave member banks, with the approval of the Federal Reserve Board, the right to accept up to 100 per cent. of their capital and surplus in transactions based upon the exportation and importation of goods.

6. Foreign branches of Federal reserve banks. In the former law the Federal reserve banks had the sole discretion to establish foreign branches. As amended, the law empowers the Federal Reserve Board to permit or require Federal reserve banks to establish connections abroad.

7. Gold and gold certificates as collateral security for Federal reserve notes. The law is amended so as to permit the Federal reserve banks to exchange Federal reserve notes for gold and gold certificates and in this way drift

into the banks the idle floating gold which in the hands of the Federal reserve banks would have great potential value.

8. Deposits of gold coin or certificates with Treasurer and sub-treasurers to credit of Federal Reserve Board. This amendment is merely for the convenience of the Federal Reserve Board in handling the daily exchanges between the twelve reserve banks which now must be done by physical transfer of gold certificates from one bank to another. It is proposed to put these certificates in a common vault and arrange the distribution by bookkeeping instead of by transfer.

9. Repeal of bond requirements of national banks. This amendment makes clear the intention of the act to cancel all provisions of law which require national banks to maintain a minimum deposit of government bonds with the United States Treasurer. National banks are no longer required to keep outstanding a minimum amount of circulating notes and a newly organized bank is not obliged to purchase or carry any bonds of the United States; but some national banks organized before the passage of the Federal Reserve Act which have retired their national bank circulation in full have been, under a construction of the old law, required to keep on deposit a certain minimum of United States bonds. The amendment relieves them of this obligation.

10. Reserves. Section 19 of the Federal Reserve Act is amended and re-enacted. Member banks will hereafter carry their entire legal reserve with the Federal reserve bank of their district. For country banks this will be 7 per cent. of the aggregate of demand deposits and 3 per cent. of time deposits; reserve city banks will carry 10 per cent. and 3 per cent. respectively and central reserve city banks 13 per cent. of demand and 3 per cent. of time deposits. The provisions of the former law requiring a stated amount of reserve to be kept in vaults are eliminated. The amount of cash to be carried in its vaults by any bank, now rests entirely in its own discretion; there is no legal requirement of any amount.

11. Penal provision. That part of section 22 which relates to unlawful fees, commissions, etc., is amended to read as follows, the words eliminated being included in parentheses and the additions italicized: "Other than the usual salary or director's fee paid to any officer, director, (or) employee, or attorney of a member bank, and other than a reasonable fee paid by said bank to such officer, director, (or) employee, or attorney for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank: *Provided, however, That nothing in this act contained shall be construed to prohibit a director, officer, employee, or attorney from receiving the same rate of interest paid to other depositors for similar deposits made with such bank. And provided further, That notes, drafts, bills of exchange, or other evidences of*

debt executed or indorsed by directors or attorneys of a member bank may be discounted with such member bank on the same terms and conditions as other notes, drafts,

bills of exchange, or evidences of debt upon the affirmative vote or written assent of at least a majority of the members of the board of directors of such member bank."

THE HARDWICK AMENDMENT

FOLLOWING is that portion of the bill (H. R. 3673) to amend the Federal Reserve Act, known as the Hardwick amendment, as finally enacted into law. The italicized portions represent modifications inserted by the conferees and adopted by House and Senate; the remainder is the original provision advocated by the Committee on Federal Legislation and the Committee of Twenty-five of the American Bankers Association, as passed by Senate and House before being changed by the conferees:

"Provided further, That nothing in this or any other section of this act shall be construed as prohibiting a member or non-member bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks."

Now that the bill amending the Federal Reserve Act has become a law by signature of the President on June 21, it is perhaps needless to publish a detailed account of the contest before Congress between the proponents and opponents of the Hardwick amendment, but a brief chronology of the leading events in the history of that amendment, beginning with its original introduction in the present Congress, will not be out of place.

On April 30, 1917, Mr. Glass, chairman of the Committee on Banking and Currency, moved in the House to take up H. R. 3673. Mr. McFadden of Pennsylvania thereupon offered the Hardwick amendment, but the chair sustained a point of order that the amendment was not germane to any provision of the bill and it was accordingly ruled out.

On May 5 H. R. 3673 passed the House.

On May 9 the bill was reported to the Senate by Mr. Owen from the Committee on Banking and Currency with an amendment to strike out all after the enacting clause and to substitute therefor the provisions of the Senate bill S. 1796 containing proposed amendments to the Federal Reserve Act, differing somewhat from the House amendments. Mr. Hardwick thereupon proposed additionally the Hardwick amendment. During the ensuing debate a letter was read into the record by Senator Owen addressed to him by the Governor of the Federal Reserve Board, in which it was stated that "the Board directed me to say to you that it would regard the adoption of the amendment as most unfortunate" and that an amendment permitting a charge of not exceeding 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, "would in the opinion of the Board, be construed by the banks as a definite suggestion that they impose such a charge, with the result that eventually these charges would be generally made, not only as against checks coming in from a distance, but even against checks

presented by payees residing in the community where the bank is located." Accompanying this letter was a resolution passed at a conference of governors of the Federal reserve banks urging "the Federal Reserve Board to use every legitimate means possible to prevent the enactment of the Kitchin bill (afterwards known as the Hardwick amendment) when introduced into Congress."

Notwithstanding this opposition, the Hardwick amendment in its original form was agreed to by a vote of yeas 36, nays 29, not voting 31, and H. R. 3673, with the substitution of S. 1796 as an amendment, and with the further insertion of the Hardwick amendment, was thereupon passed by the Senate.

A motion was agreed to that the Senate request a conference with the House upon the bill and amendments and conferees were appointed on the part of the Senate.

On May 10, 1917, in the House, H. R. 3673 was taken from the Speaker's desk and Mr. Glass, chairman of the Banking and Currency Committee, moved to disagree to all of the Senate amendments and for the appointment of conferees. Mr. McFadden thereupon moved "that the managers on the part of the House be instructed to agree in conference to the substance of the following provision," quoting the text of the Hardwick amendment as passed by the Senate. After debate this motion to instruct the conferees was agreed to by a vote of 240 to 117 and conferees on the part of the House were appointed.

On May 11, in the Senate, Mr. Martin of Virginia read a letter addressed by the Governor of the Federal Reserve Board to Chairman Glass, dated May 10, reciting a telephone conversation had that afternoon by the Vice-Governor of the Board with the Governor of the Federal Reserve Bank of New York, who called "attention to the possibility, if not strong probability, of the Government having to pay bankers a million dollars exchange charges in connection with subscriptions to the Liberty Loan, assuming that the Hardwick amendment, which the House has instructed its conferees to agree to, becomes a law." The letter said: "I would suggest, therefore, that you call the attention of Senator Owen to this and suggest that he ask the Senate to reconsider the Hardwick amendment with the view of changing it so as to prevent it from applying to transactions connected with Government bonds. This, I think, would give you the opportunity that you desire to handle the matter in conference."

Based on this letter, Senator Martin moved that the vote whereby the Senate passed House bill 3673 be reconsidered and that the House be requested to return the bill to the Senate. This motion failed.

At this point of time the enactment into law of the Hardwick amendment in its original form seemed almost a practical certainty, for both Houses had expressed their will upon the identical provision and there was no disagreement between the two Houses which called for adjustment by the conferees. But after holding the bill for an entire month, Mr. Glass, on June 9, presented to the

House the report of the conferees in which the Hardwick amendment as originally passed was substantially modified as above shown.

On June 12 Mr. Glass called up the conference report, whereupon Mr. Harrison of Mississippi raised the point of order that the conferees had exceeded their authority in modifying the Hardwick amendment, as they had changed the substance thereof so as to virtually nullify the amendment and defeat the intention and will of the House. A long debate ensued, at the close of which the Speaker overruled the point of order.

Mr. McFadden thereupon moved that the bill be re-committed to the conference committee with instructions that the managers on the part of the House obey the instructions given them on May 10 to agree in conference to the provisions of the Hardwick amendment as passed by the Senate. The motion was made the subject of an extended debate, which was continued on June 14. The motion to recommit was finally rejected by a vote of 159 to 170, not voting 94, and the conference report was thereupon agreed to by the House.

On June 18 Chairman Owen presented the conference report to the Senate and called attention to the modification of the Hardwick amendment. He read into the record a letter addressed to him from President Wilson under date of May 29, stating that the writer had been "a good deal disturbed to learn of the proposed amendment to the Federal Reserve Act, which seems to contemplate charging the Federal reserve banks for payment of checks cleared by them, or charging the payee of such checks passing through the reserve banks with a commission. I should regard such a provision as most unfortunate and as almost destructive of the function of the Federal reserve banks as a clearing house for member banks, a function which they have performed with so much benefit to the business of the country. I hope most sincerely that this matter may be adjusted without interfering with this indispensable clearing function of the banks."

Upon the final vote the conference report was adopted, yeas 51, nays 14, not voting 31.

The bill then went to the President, who, as stated above, approved the same on June 21 and it is now a law.

In the course of the debate in the House on the report of the conferees, it was alleged by the supporters of the original Hardwick amendment and supported by voluminous documentary proof that during the month that the bill had been in the hands of the conferees, an extensive propaganda had been carried on for the purpose of defeating the legislation, by the Federal Reserve Board, the Federal reserve banks, the National Credit Men's Association and numerous organizations of jobbers, mail-order houses and the like and that thousands of telegrams had been sent to members of Congress for the purpose of inducing them to change their views upon the legislation in question.

Notwithstanding all possible efforts on the part of our own committees to counteract this campaign and to correct mis-statements and misinterpretations, these efforts proved successful. The above statement of facts taken from the record of proceedings in House and Senate shows how the Hardwick amendment providing for reasonable charges, after having been fully considered and passed by a majority vote of the Senate and an overwhelming vote in the House was, through subsequent action of the conferees, which was ratified by Senate and House, virtually nullified by modification. The Senate having passed the amendment in its original form and the House having instructed the conferees to agree to the substance thereof, it would seem, to the lay mind at all events, that it was beyond the power and authority of the conferees to change the substance and oppose their individual wills to the declared will of House and Senate. Apart from the merits of this particular measure, it would seem that a deeper question was involved here, namely, whether a small minority of six members who had been entrusted to put into form the expressed will of the majority should be permitted, under the guise of changing the form, to so alter the substance as to defeat the original intent. If this can be done with one piece of legislation it can be done with any. That the substance was changed there can be no question. As originally passed, the right to make a reasonable charge was given to the member bank and the maximum was fixed by the proposed law; as modified, the right to make the charge up to the limit was taken away from the member bank and the control of the amount vested in the Federal Reserve Board. Furthermore, and of still greater moment, the bill as originally passed by House and Senate gave the right to the member bank to make the charge for remission of funds in payment against all presenters of checks, including the Federal reserve banks; as modified, the charge against Federal reserve banks is eliminated. But both House and Senate have ratified what seems to have been an unauthorized exercise of power by the conferees, their action becomes law and it is useless to further discuss the rights and wrongs of the matter. It need only be said that the Committee of Twenty-five and the Committee on Federal Legislation, charged by resolution of the General Convention to promote legislation along the lines of the Hardwick amendment, have endeavored to do their full duty from start to finish and have worked faithfully up to the last to maintain the Hardwick amendment in its original integrity.

It remains to be seen how the Federal Reserve Board will interpret the Hardwick amendment as now modified. It was stated unofficially by a prominent opponent in Congress that the provision eliminating charges against the Federal reserve banks was not intended to prevent charges in those cases where they could be passed on to the original payee. Whether the law will be so construed remains to be seen.



CONGRESSIONAL GRANT OF TRUST POWERS TO NATIONAL BANKS CONSTITUTIONAL

THE Supreme Court of the United States, in an opinion handed down June 11, has upheld the constitutionality of section 11 k of the Federal Reserve Act, which gives the Federal Reserve Board authority

"to grant by special permit to national banks applying therefor, when not in contravention of state or local law, the right to act as trustee, executor, administrator or registrar of stocks and bonds under such rules and regulations as the said Board may prescribe"

and has reversed the judgment of the Supreme Court of Michigan in the case of *First National Bank of Bay City v. Fellows*, which court held that the legislation in question was in excess of the authority of Congress and hence repugnant to the constitution. The full opinion of the United States Supreme Court is published elsewhere in the *JOURNAL* and this memorandum will be confined to a summary of its main features.

The right of the national bank in question to exercise trust powers in pursuance of a special permit granted by the Federal Reserve Board was contested by the Attorney General of Michigan before the state Supreme Court on three grounds, because (1) Congress had no power to confer the authority, (2) if it had the power it was without right to delegate to the Federal Reserve Board the determination of when it should be used, and (3) the exercise of the power was in contravention of the laws and authority of the state and the Reserve Board had no power to grant the certificate.

The Supreme Court of Michigan conceded that the exercise of such trust powers was not in contravention of the law of the state, but decided that Congress had no authority to confer the power and that the section of the act under consideration was unconstitutional and void. This rendered unnecessary any decision by that court of the question whether, if Congress had the power, it had the right to delegate the exercise thereof to the Federal Reserve Board.

The Supreme Court of the United States decides that the Supreme Court of Michigan erred in declaring the section unconstitutional and reverses the judgment of that court. It shows that under principles long ago recognized

and applied by the Supreme Court it has been adjudged that Congress has authority to create a bank whose functions comprehend not only governmental but private transactions, and that although the conferring of the right to do a particular character of private business might not, if separately considered, be within the implied power of Congress to grant, yet if such private business is appropriate or relevant to the banking business, the implied power is to be tested by the right to create the bank and it is within the authority and function of Congress to determine what character of private business, attached to the public business, might be necessary to make the bank successful. The court holds that while the Supreme Court of Michigan recognized that Congress had power to organize banks and endow them with functions both of a public and private character, it erroneously decided that Congress had no authority to confer trust powers upon national banks. The opinion enumerates in detail the reasons why the decision of the Supreme Court of Michigan is in conflict with the doctrines long ago established by the Federal Supreme Court. It is unnecessary to repeat these reasons here.

The Supreme Court having decided that Congress has the authority to confer trust powers upon national banks, dismisses in a few words the contention that, if Congress had the authority, it could not delegate its exercise to the Federal Reserve Board, saying that the contention "that the authority given by the section to the Reserve Board was void because conferring legislative power on that Board is so plainly adversely disposed of by many previous adjudications as to cause it to be necessary only to refer to them."

A further question before the court related to the competency of the procedure and the right of the state court to administer relief. A majority of the court holds that the procedure resorted to was appropriate and that the state court had the right to consider and pass upon the question. Two of the justices, however, dissented from the conclusion that the proceeding could be brought and maintained in the state court and took the ground that the writ should have been dismissed in the first instance for want of jurisdiction.

OPINIONS OF THE GENERAL COUNSEL

PROMISE TO PAY CHECK OVER TELEPHONE

In Texas an oral promise to pay a check will bind the bank but the check must conform to the terms of the promise and where a bank promises to pay a check for \$500 and the check as presented is coupled with a condition making it payable only if a future drawn contract is satisfactory, the check does not conform to the promise and the bank is not bound.

From Texas—A, one of our customers, gave to B, a resident of New Mexico, his check for \$500 on the back of which he wrote a memorandum of agreement that the check was given as a forfeit on certain described land in New Mexico "when contract is to be drawn satisfactory to both parties." This memorandum was signed by B. Two days after this check was given by A, B presented the check to C bank in New Mexico, whereupon the cashier called our bank over long-distance telephone and asked if we would pay A's check for \$500. Our cashier told him A's check for \$500 was good and we would pay same. However, the officer of the New Mexico bank withheld the information contained on the back of the check, and it so happened that on the afternoon of the same day A, who

with his attorney was in New Mexico, failed to agree on the contract which was to be drawn; hence A asked that we stop payment on his check. Today the check was presented to us for payment through another Texas bank and we are protesting and returning same. Our cashier called the cashier of the New Mexico bank over long-distance telephone and told him we could not pay the check for the reason that he did not give us the information contained on the back of the check when he phoned us asking if the check was good and furthermore, A had asked that payment be stopped on account of the failure of B to carry out his part of the contract. The New Mexico bank say they cashed this check for B only upon our O. K. over telephone and that they will hold us liable for the amount unless they are able to get B to refund same. We would be pleased to have your opinion whether we are liable for the payment of this check; further, after same had been O. K'd over telephone did A have the right to stop payment on the ground that the memorandum of agreement contained on the back of the check was not carried out?

In most states a bank is not bound upon its oral promise over the telephone to pay a described check, as the law requires the promise to be in writing; but in Texas, differing from nearly every other state, an oral promise to pay a check will bind the bank. See opinion citing Texas authorities in May, 1917, JOURNAL A. B. A., at page 903.

In your case, however, the oral promise was to pay the check of your depositor for \$500 and the check as presented was not an ordinary check for \$500, but was coupled with a condition making it payable in case a future drawn contract was satisfactory to both parties.

The general rule is that one who promises in advance to accept or pay a check, draft or bill of exchange is bound upon such promise only when the instrument in its terms conforms to the terms of the acceptance. *Lindley v. First Nat. Bank*, 76 Iowa 629; *Gates v. Parker*, 43 Me. 544; *Murdock v. Mills*, 11 Metc. (Mass.) 5; *State Bank v. Citizens Nat. Bank*, 114 Mo. App. 663; *Ulster County Bank v. McFarlan*, 5 Hill (N. Y.) 432. See also *Brinkman v. Hunter*, 73 Mo. 172; *Henrietta Nat. Bank v. State Nat. Bank*, 80 Tex. 648.

In *Lindley v. First Nat. Bank*, above cited, a bank promised to pay B's draft on it for \$2,000. The draft as presented was for \$2,000 "with exchange on New York." The bank was held not liable. *State Bank v. Citizens Nat. Bank*, above cited, was a similar case in which it was held a promise to honor a draft for \$800 did not bind the bank to honor a draft for that sum with exchange. In neither case did the draft strictly conform to the terms of the promise.

Equally in your case, when your bank promised to pay your depositor's check for \$500 this did not, I think, bind you to pay a check for that amount coupled with the condition referred to. You were asked if you would pay your depositor's check for \$500 and promised that you would do so. Obviously you did not intend to accept a check differing in any material particular from an ordinary check for that amount. The mind of your bank's officer never operated on any other check than the one mentioned in the telephone conversation and the description of the check therein given failed to recite the condition imposed, which was indorsed on the back. The liability of the bank, if any, is created by its contract, and it is impossible that it should be bound by conditions or stipulations to which it never gave its consent.

I think, therefore, the bank is not liable for the payment of this check and notwithstanding your promise over

the telephone to pay your depositor's check for \$500, he had the right to stop payment of the check in question on the ground that the memorandum of agreement contained on the back of the check was not carried out.

PRESENTMENT OF NOTE PAYABLE AT BANK

Where an indorsed note is made payable at a bank, presentment for payment must be made at the specified place in order to hold an indorser and where the note is not presented at the bank, but to the maker personally, and then protested, the instrument is not duly presented and the protest unauthorized.

From Kansas—I would thank you for a little advice on the following: We had a note that one of our customers gave a jewelry house in the East in payment for merchandise and this note was sent to us through a St. Louis bank for collection, but was made payable at the X bank at this place. We presented this note to our customer in person and he said he would be up and pay it; he said this on two different presentations, and as it came to us to protest if not paid, we had it protested. We never presented it at the X bank. We returned the note protested to the St. Louis bank and they remitted us the protest fees, and then sent the note to the Eastern bank. The jewelry house refused to pay the fees because our customer refused to pay them on the ground that the note was never presented at the X bank because he said he had enough money there to pay the note. Now can we collect the protest fees from the jewelry company as the note has since been paid by our customer, or do we have to stand the loss and say nothing about it?

I think protest in this case was not justified and that you are not entitled to the protest fees. Protest is only authorized when the instrument is dishonored and to constitute a dishonor it must be "duly presented." The Negotiable Instruments Act provides that "presentment for payment to be sufficient must be made * * * at a proper place as herein defined" and it further provides that "presentment for payment is made at the proper place where a place of payment is specified in the instrument and it is there presented." The note in question was made payable at a bank and the proper place for presentment was at the bank where payable. Instead it was presented to the maker personally and not being paid, was protested.

So far as the maker of a note payable at a particular place is concerned, the rule is that no demand or presentment at the place named is necessary in order to entitle the holder to maintain an action against the maker. *Farmers Nat. Bank v. Venner*, 78 N. E. (Mass.) 540. But to hold an indorser of a note payable at a bank, presentment must be made at the bank, and it is not sufficient to make presentment to the maker personally away from the bank. See, for example, *Myers Co. v. Battle*, 86 S. E. (N. C.) 1034, where the court said: "Presentment and demand at the specified bank are necessary in order to charge a drawer or indorser, in the absence of some good and sufficient reason for failing to make presentment there. One of these reasons is that the maker had no funds at the bank to meet the obligation. If the maker of a note payable at a bank has no funds in the bank when it falls due, demand of payment there is unnecessary." See also *Merchants Nat. Bank v. Bentel*, 113 Pac. (Cal.) 708, holding that to fix the liability of an indorser of a note payable at a specified place presentment for payment must be made at such place.

In your case there was no presentment of the note at the bank where by its terms it was payable. You simply presented it to the maker in person and then caused it to be protested. I think under such circumstances it would be held the note was not duly presented and that protest was unauthorized. There would be no right in such a case to protest fees.

MATERIAL ALTERATION OF NOTE

Where payee of note changes time of payment without assent of maker, this constitutes a material alteration and avoids instrument unless change is made to make instrument conform to intent and agreement of parties—Where note avoided by material alteration, original consideration generally held recoverable unless alteration fraudulently made, in which case consideration is forfeited.

From Indiana—Kindly give us your opinion on the following: Does the changing of time on a note release the maker? For instance—If a note is made for 120 days and the maker pays the interest in advance for only 90 days and the word *Ninety* days is written after the words *One Hundred and Twenty*, does that make this contract void? What steps should be taken to enforce the payment of this debt?

Under the Negotiable Instruments Act, the material alteration of a note by the payee without the assent of the maker, avoids the instrument except that it is enforceable according to its original tenor by a holder in due course. (Indiana Act, Sec. 9089t 4.) "Any alteration which changes * * * the time or place of payment * * * is a material alteration." (Id. 9089u 4.)

In the case stated a note is made for 120 days and the payee, I understand, changes the time of payment to 90 days because the maker has paid interest in advance for only 90 days. If this change was made without the assent of the maker, it would be a material alteration and avoid the instrument. If, however, it was the intention and understanding of the maker that his note was to run for 90 days and the change was made in good faith to make the note conform to the intent, the instrument might not be avoided. See, for example, *Busjahn v. McLean*, 29 N. E. (Ind.) 494, in which it was held that where a mistake has occurred in the terms of a note and it is in fact different from the purpose and intention of the parties and a change is made therein in good faith by the holder for the purpose of making the instrument conform to the intention of the parties, the alteration will not forfeit the note. Under such circumstances the holder is impliedly authorized to make the correction, but it must clearly appear that the mistake was mutual and extended to all the parties and the change was one such as was necessary to rectify the mistake and to make the instrument speak the exact truth. See also *Osborn v. Hall*, 66 N. E. (Ind.) 457, in which it was held that an alteration of a note by the payee by changing the rate of interest from 8 per cent. as printed to 7½ per cent. to make it conform to the actual agreement in regard to interest, does not vitiate it.

In the present case, therefore, if it was the intention of the maker and the understanding between maker and payee that the note should run for 90 days and interest was paid in advance for 90 days in pursuance of that intention, I think the changing of the note in good faith by

the payee from 120 to 90 days to make it conform to the agreement and intent, would not avoid it; but if the maker understood that he was executing a note payable in 120 days and the payee, without his assent, changed the time of payment to 90 days, this would avoid the instrument for it would not be in accord with the intent and agreement of both parties.

Assuming that a note is avoided by a material alteration, the further question arises whether there can be a recovery on the original consideration for which the note is given. On this question there is a conflict of authority. Some courts hold that when a material alteration is made in a note by the payee without the maker's knowledge, but not with fraudulent intent, the alteration merely invalidates the note and does not extinguish the original consideration. *Hayes v. Wagner*, 89 Ill. App. 390; *Savage v. Savage*, 59 Pac. (Ore.) 461. But other courts hold that not only does a material alteration avoid the instrument, but that the original consideration is also forfeited. See, for example, *Bigelow v. Stephens*, 35 Vt. 525, where the court said: "The weight of authority, however, seems to be in favor of the position, that in such case there can be no recovery for the original consideration. The forfeiture of the debt is one of the penalties that the law imposes upon the party who alters or tampers with the written evidence which he holds of his claim. The rule is based on considerations of policy, the object being to deter the holders of written instruments from attempting to commit frauds upon the signers, by altering them."

This appears to be the rule in Indiana, for in *Tate v. Fletcher*, 77 Ind. 102, the court held that where a negotiable note is altered in such a material respect as to render it void, a mortgage given to secure the note is discharged and such mortgage cannot be foreclosed by declaring on the original indebtedness, since the note operated as a discharge of the obligation for which it was given. The rule, however, that the original consideration is forfeited by a material alteration is generally held to apply only where the alteration is fraudulent and where it is made without fraudulent intent, the original consideration is recoverable.

TAXATION OF CHOSSES IN ACTION IN OKLAHOMA

Review of Oklahoma law of 1917 providing for payment of a tax on bonds, notes and choses in action and excluding from the courts all such instruments not registered and upon which the tax is not paid in accordance with the act.

From Oklahoma—We would be thankful if you would publish your views on House Bill No. 571, Oklahoma Session Laws of 1917, providing for the payment of a tax on choses in action.

The law referred to, which took effect March 10, 1915, provides: "Any person owning any bond, note of any duration of over eight months, or other choses in action evidenced by writing located in the state of Oklahoma, may take the same to the office of the county treasurer of the county in which the owner of said bond, note of a duration exceeding eight months, or other choses in action, resides or he may send a description of the same to said county treasurer, and pay to the said county treasurer a tax of two per centum of the face amount thereof for five years

or, at the option of such person, for a greater or less number of years at the same rate, and the said county treasurer shall thereupon make an indorsement upon said bond, note of a duration of over eight months, or other choses in action, certifying that same is exempt from all taxation for state, county, city, town, township, school district and other municipal purposes for a period of five years, or for such longer or shorter period for which a proportionate tax has been paid, which indorsement or receipt shall be duly dated and signed in the name of the county treasurer of the county in which said property is located and where said tax is paid, and with the seal of the treasurer of said county affixed. Provided the provisions of this act shall not apply to any property which under existing laws is not subject to taxation and provided further all property taxable under the provisions of this act and owned by a non-resident of the state of Oklahoma, shall be listed for taxes in the county in which such evidence of indebtedness is located; and provided further, nothing in this act shall cause any part of the capital stock of a corporation to be exempt from taxation; and provided further, the bonds, notes and other choses in action, evidenced in writing held by banking corporations which pay taxes on its capital stock, surplus and undivided profits, shall not be subject to the provisions of this act."

The act further provides for the keeping by the county treasurer of a record of such choses in action; requires all such taxable property now in existence to be listed for taxation within sixty days after the act becomes effective and all future executed choses in action to be likewise listed within sixty days from date of execution; provides the specific purposes for which the tax shall be collected; provides that in case of failure to list such property and pay the tax within the time specified, the owner may pay the taxes at any time thereafter with a penalty of 5 per cent. of the face value and further provides that "no bond, note of over eight months' duration or other choses in action, which has not been registered with the county treasurer of the county in which it is located and the tax paid in accordance with this act, shall be admitted in evidence in any of the courts of the state of Oklahoma provided that this act shall not apply to notes secured by real estate mortgages which have been or hereafter may be registered under the provisions of Chapter 246, Session Laws 1913, as amended by Chapter 105, Session Laws 1915."

As I understand, the underlying purpose of such a law is to reach for taxation a class of intangible personal property which would otherwise escape taxation. While all real estate is subject to taxation, there is a large amount of personal property in every state which escapes and a law taxing choses in action is one of the methods by which that class of property is made to bear its share of the burden of taxation.

A law somewhat similar has existed in Connecticut for a number of years. The Connecticut law is in substance as follows:

Any person may send to the office of the treasurer of the state any bond, note or other chose in action, and pay a tax of 2 per cent. on the face amount for five years, or for a greater or less number of years at the same rate. "The treasurer shall thereupon make an indorsement upon said bond, note or other chose in action, or shall give a receipt for the tax thereon, describing said bond, note or chose in action," certifying that the same is exempt from

all taxation for the period of five years, or for such longer or shorter period for which a proportionate tax has been paid. The treasurer shall keep a record of indorsements, together with the name and address of the party presenting them, and the date of registration. The treasurer annually sends to the town clerk of each town a description of all such bonds, etc., registered by persons residing in such town, indicating that such bonds, etc., are exempt from all taxation in the state for the period during which the tax is enacted.

The Connecticut law provides a method of voluntary registration and in a report of the Joint Legislative Committee on Taxation of the State of New York, transmitted to the Legislature in February, 1916, they conclude that such a law has certain good features but do not advise it for the state of New York. In this report they say:

"The second method is that of voluntary registration, such as is found in Connecticut. This plan contemplates the retention of the personal property tax at the general property rate, but permits the taxpayer to register his securities annually, to pay the two, three or four mill tax, as the case may be, and so to exempt his property from the local personal property tax. The difficulty with this scheme is that the threat of the enforcement of the personal property tax at the general property rate can never be made severe enough to compel all of the property, or even the greater part of it to pay the lower tax. Indeed, under the circumstances, there is hardly incentive enough on the part of the local assessor to induce him to make any very strenuous effort to furnish the compelling force."

Your law aims to make the registration compulsory, for while it provides that the owner "may take" the described choses in action to the office of the county treasurer or send a description of same and pay a 2 per cent. tax for five years or a proportionate tax for a longer or shorter period, it further provides a compulsory listing within sixty days and it also excludes from the courts any such bonds, notes or choses in action which have not been so registered. If the owner was sure of receiving payment, without the necessity of going to court and without discovery that it was not listed, he might omit to register; but the contingency of being compelled to enforce the obligation in court might prompt him to do so.

The law does not provide for double taxation of banks owning such bonds, notes or choses in action because it contains a provision that such securities "held by banking corporations which pay taxes on its capital stock, surplus and undivided profits shall not be subject to the provisions of this act."

In a report of the Kentucky Tax Commission to the Governor of Kentucky in 1916, a similar provision is recommended in a proposed law, barring collection through the courts of unlisted choses in action. In the law proposed all personal property is required to be listed and "when any money in hand, notes, bonds, accounts or other credits" are omitted from assessment certain penalties are provided and in addition "failure to list any note, bond, account or other credit shall be a bar to any action upon the same in any court and may be pleaded as a complete defense. But the holder thereof may at any time pay all taxes, penalties and accrued interest and thereupon be relieved from the defense above provided."

The proposed Kentucky law does not provide for a special registration and special tax upon choses in action; but it is aimed at the requiring of the listing of such prop-

erty, along with other property, for taxation. It is another phase of a general movement seen in many states to provide methods by which a larger share of personal property may be subjected to taxation.

PAYMENT OF SAVINGS DEPOSIT ON FORGED ORDER

A rule printed in the pass book of a depositor that the bank will not be liable for payment to a person presenting the book who falsely alleges himself to be the depositor, will not relieve the bank making payment to such person upon forged order unless it uses reasonable care.

From West Virginia.—We enclose copy of our savings book for your consideration of its by-laws in reference to the following facts, viz.: The book of one of our depositors was stolen, was presented to us and payment made on a forged signature. We received no notice of loss of book until day after forgery was perpetrated. Will you please give us an opinion on the case as to the by-laws and cite authorities.

The by-laws of your bank provide:

"If any person shall present a book and falsely allege himself or herself to be the depositor named therein, and thereby obtain the amount deposited, or any part thereof, this institution will not be liable to make good any loss the actual depositor may sustain thereby, unless previous notice of his or her book having been lost or taken shall have been given at the office of the bank."

The courts quite generally hold, notwithstanding by-laws of the above character absolutely exempting the bank from liability, the bank must show that it exercised reasonable care in making payment; otherwise it will be liable. The determining question in every case of this kind is whether the bank exercised reasonable care.

The decision by the Supreme Court of Appeals of West Virginia in February, 1916, of the case of *Zuplkoff v. Charleston Nat. Bank*, 88 S. E. (W. Va.) 116, involving the liability of the bank where it paid a savings deposit to a person, not the depositor, who produced the pass book and signed a forged order, will be instructive in determining the question of liability in the present case. In that case the fourth by-law of the savings department of the bank provided: "Deposits and the interest thereon may be withdrawn by the depositor in person or by written order; but in either case the pass book must be presented, that such payments may be entered therein. As officers of the bank may be unable to identify every depositor, the bank will not be responsible for loss sustained where a depositor has not given notice of his or her book being lost or stolen, if such book be paid in whole or part on presentation. In all cases a payment upon presentation of a deposit book shall be a discharge to the bank for the amount so paid." The fifth by-law provided that deposits should be paid only to the depositor or his order and the sixth that depositors, on signing the card, agreed to the rules of the bank. The bank had paid a deposit of \$450 to a man presenting the plaintiff's pass book, representing himself to be and signing an order in the name of the plaintiff. The signature on the check was compared with that on the signature card and there being slight variations between the two and the man saying there was no one in Charleston who could identify him, he was asked certain test questions

on the back of the signature card, which he answered correctly and was then asked to sign his name again on the back of the check, which he did. The signatures looked enough alike to induce the bank officer to believe the signature on the order was genuine and the money was paid. The man who got the money was not the depositor.

This case was submitted to a jury and there was a verdict against the bank, which was set aside by the Circuit Court. The Supreme Court of Appeals reversed the Circuit Court and entered judgment on the verdict for the plaintiff. In its opinion it said:

"This case presents some novel and important questions not heretofore passed upon by this court, although they have been the subject of frequent adjudication in other states. The liability of a bank to its depositors in its savings department differs very considerably from its liability to its depositors in other branches of its business. Generally banks adopt rules and regulations relating to receiving and paying out money on deposits in its savings departments. As has been stated, the defendant bank in the case at bar had adopted such rules. It is important to know to what extent and under what circumstances these rules are binding upon the depositor. Deposits of this kind are not subject to check, and most of the depositors are seen but occasionally at the bank. They are usually quite numerous, rendering identification more difficult than in cases of ordinary banks. Hence by agreement between the bank and its depositors reasonable rules and regulations may be adopted for the protection of both the depositors and the bank. Such rules, when reasonable and assented to by the depositor, are upheld by the courts, where there is no negligence on the part of the bank.

"The adjudicated cases uniformly hold that in case of a savings bank, or a bank having a savings department, by-laws requiring presentation of the pass book and notice to the bank in case of loss as conditions precedent to payment are reasonable, and, when brought to the notice of the depositor, become part of the contract between the bank and the depositor. But it is quite as uniformly held that, notwithstanding those contract relations, the bank is bound to exercise good faith and reasonable care in making payment so that payment shall be made to the person entitled to receive it. This is so because the bank cannot make a contract by which it relieves itself of responsibility to the extent that it may carelessly or negligently pay to one who has come into possession of the pass book fraudulently or criminally."

After referring to numerous authorities, the court continued:

"Many authorities might be added to the above, all to the same effect, but those cited are deemed sufficient to elucidate the law. We are of opinion that, under the law, notwithstanding the provisions of rules 4, 5 and 6, it was the duty of the bank, when the pass book was presented to it by a stranger and the sum of \$450 demanded, to use reasonable care to ascertain whether or not the person presenting it and demanding payment was the owner of the book. The officers of the bank recognized this duty, and, the suspicion of the officers having been aroused, made some effort to discover whether the person presenting the book was the owner."

The court then referred to what was done by the officers of the bank and said:

"This brings us to the question of whether or not the bank officers exercised proper or reasonable care and dili-

gence in paying the \$450. In addition to the statements of the president and the cashier of the bank, the pass book, the original 'signature card,' with the depositor's name signed thereto, and the check signed at the bottom and indorsed on the back, were in evidence and examined by the jury. These signatures were compared by the officers of the bank when the demand for the money was made, and from a comparison of the signatures, the answers to the 'test questions' and the possession of the book, and no notice that the book had been lost by the depositor, the officers of the bank reached the conclusion that the man who produced the book was the owner. Did the officers of the bank use reasonable care? Could they have discovered by a more careful inspection of these signatures that they were not made by the same person, that is, that the person who signed the check in their presence was not the person who signed the 'signature card,' and should they not have required a personal identification."

The court then reviewed the conflicting testimony of a number of bank officers in Charleston, some of whom testified in answer to a hypothetical question reciting the facts and asking whether in the exercise of reasonable care they would have paid the check, that they would have done so; while others testified that the signatures were not sufficiently alike and that they would have required identification. The court then said:

"It cannot be doubted that, under the facts and circumstances of this case, the questions presented are questions for a jury. It is not the province of this court to determine the weight and effect of the circumstances brought to the attention of the defendant officers at the time the money was paid, nor to point out the inferences which a prudent man might be expected to draw from them. All that it is proper for us to say is that they were of such character as to require their submission to a jury. * * * Without burdening this opinion with additional authorities, it may be said that, where a depositor seeks to charge a savings bank with negligently paying money belonging to the depositor to another wrongfully, and there is testimony tending to sustain each, this makes a case proper to be submitted to a jury to say whether, in view of all the facts and circumstances attending the transaction, the officers of the bank exercised reasonable care and diligence to identify the person to whom the money was paid."

The jury having rendered a verdict for the plaintiff for the amount of the deposit, the court held, as aforesaid that the Circuit Court erred in setting aside the verdict, and it gave judgment on the verdict for the plaintiff.

The above decision, which I have quoted from at considerable length, illustrates the law of West Virginia upon cases of this kind. In the light thereof, it is clear that the by-law, printed in your pass book, will not of itself relieve you from making payment on a forged signature upon presentation of a stolen book, without notice of the theft, unless you have exercised reasonable care. You do not state any facts in this connection.

In the West Virginia case cited, the facts indicated a discrepancy in the signatures which aroused the suspicion of the bank officers and they made certain efforts to discover whether the person presenting the book was the owner; but according to the jury they did not do enough in this direction and failed to exercise reasonable care.

In a case where the signature to the forged order is so like the signature on file as not to arouse suspicion

there might not be the same duty of inquiry. For example, in the recent case of *McKenna v. Bowery Savings Bank*, 157 N. Y. Supp. 16, where the signature to the forged order presented no striking discrepancies from the signature on file and inquiry would have revealed that the woman who presented the order and had possession of the pass book was the wife of the depositor, it was held that the bank was not guilty of negligence in failing to make inquiries concerning and in paying the order; there being nothing to excite its suspicion. The courts of West Virginia have not ruled upon such a case.

COLLECTION OF OUT-OF-TOWN CHECK

Under law of Texas, bank receiving out-of-town check for collection is an independent contractor and is liable to its principal for the defaults of subsequent banks to whom the item is forwarded, unless, by stipulation, it relieves itself from such liability.

From Texas—A customer of ours deposited a check payable to them and indorsed by them, drawn on the R State Bank. This check was forwarded to our correspondent bank in Ft. Worth, Texas, for collection and credit. The Ft. Worth bank in turn forwarded the check to the E bank of R, Texas, who presented the check to the R State Bank in the regular channel of daily clearings, receiving payment from the R State Bank for said check. The E bank then forwarded to the Ft. Worth Bank its draft drawn on the T bank in payment of this and other items. Before the draft drawn on the T bank could be collected by the Ft. Worth Bank, the T bank failed and the E bank being owned by the T bank, was simultaneously closed. The maker of the check, we feel, should not be responsible, as his account had already been charged with the check, and the R State Bank, on whom the check was drawn, had paid the funds on said check. In case the E bank's assets are not sufficient to take care of the check, we feel that the payee who elected to collect the original check through the above channel would have to bear the loss.

Under the law in Texas a bank undertaking the collection of a check payable in another place is an independent contractor so that the bank selected by it to collect the check is its agent (and not the subagent of its principal) for whose default or failure to remit, it is liable to its principal. *Sagertown Hardware & Furniture Co. v. Gamer Co.*, 166 S. W. (Tex.) 428. If, however, the bank receiving the check for collection stipulates that it shall not be liable for the defaults of correspondents, this stipulation will relieve it. *Idem*.

Applying this rule to the facts in your case, the check having been paid, the drawer is discharged and the Fort Worth Bank would be liable to you for the default of its correspondent, the "E" bank, which collected the check but defaulted in remitting the proceeds; and your bank, in turn, would be liable to your customer. If, however, the Fort Worth Bank received the check, as many banks do, under a stipulation that it would not be liable for the acts or omissions of other banks to whom the paper was transmitted, this would relieve it from liability and place the loss upon your bank, unless you also received the check under a similar stipulation with your customer, in which event he would be the loser.

You state that the payee, your customer, elected to collect the check through the above channel. If by this you mean that he instructed your bank to send the check

through the specific agents named, this would doubtless take the case out of the rule that your bank was an independent contractor, responsible for its agents, and place the loss upon your customer, but if he gave no such specific instruction but simply deposited the check for collection, you yourself selecting the agents, he would not be responsible for the loss, unless as aforesaid you stipulated against liability for the defaults of correspondents.

PURCHASE AND DISCOUNT OF COMMERCIAL PAPER IN PENNSYLVANIA AS AFFECTED BY RIGHT OF SET-OFF

The rule that a bank has a right to set off a deposit against its customer's matured indebtedness applies equally to his indebtedness upon paper discounted for the customer and paper of the customer purchased from a third person in usual course of business—Right of set-off of unmatured paper upon depositor's insolvency not recognized in Pennsylvania, the rule conflicting in other states, but exists under National Bankrupt Act.

From Pennsylvania—In Pennsylvania it is not permitted to a trust company to discount commercial paper, but they are at liberty to buy this paper outright. (1) Would a national bank which had discounted a note of a firm for \$5,000 have any advantage in the matter of collecting over a trust company which had bought outright another note of the same firm for the same amount, presuming that the firm had a deposit account with the national bank. (2) Suppose the firm had an account at both places. (3) In case of insolvency could either charge the note up, or apply the balance if that were less than the note? Would the note have to be due or past due, and could nothing be done if the date of maturity had not arrived when insolvency overtook the firm?

Your first inquiry is as to any advantage in the matter of collecting which would be possessed by a national bank which had discounted for a firm whose deposit account it kept, the note of the firm for \$5,000, over a trust company which bought outright a similar note of the firm but carried no deposit account of the latter. In the first case, at maturity of the note, the national bank would have the right to apply the deposit to its payment under the general rule of set-off, while the trust company would not have the same source of reimbursement, but

would have to collect the note directly from the firm or resort to suit.

Your second inquiry adds the element that the firm also carries an account with the trust company and involves the question whether the banker's right to set off matured paper against a customer's account exists, not only in the case where the note has been acquired from the customer directly by way of discount, but also where it has been acquired by purchase from a third person. The theory of set-off is that it is a balancing of mutual debts and I think the customer of a bank whose note has been purchased from a third person by the bank, is equally indebted to the bank at maturity of the note, as if the note had been discounted for him directly. I think the bank purchasing from a third person would have the right to apply the deposit of the maker of the note equally as if it had been discounted for the maker directly, subject, of course, to the limitation that the paper must have been acquired in the usual course of business and not purchased for the express purpose of enabling a seller to realize out of the funds of a maker approaching insolvency.

See, for example, *Melander v. Western Nat. Bank*, 21 Cal. App. 462, in which it was held that the bank's right of set-off is not tested by the character in which the customer becomes indebted to it but solely by the fact that he is indebted to it in the course of business. See, also, *Mechanics Bank v. Seitz*, 150 Pa. 632, in which it is held that a bank which has discounted a note may appropriate the funds in its hands belonging to any party to the note to its payment, if the note is not paid at maturity.

Your further question is whether in case of the insolvency of the maker, the purchasing or the discounting bank can charge the note up against the maker's account. If the note has matured, the right of set-off by both exists, as above shown. But where the note has not matured, there is a conflict of authority among the courts as to whether the fact of the maker's insolvency entitles the bank to charge the unmatured note against his account. In Pennsylvania the courts deny the right of set-off in such case. *Chipman v. Bank*, 120 Pa. 86. But under the National Bankrupt Act, the bank may set off an unmatured note against the bankrupt's deposit. *Frank v. Mercantile Nat. Bank*, 182 N. Y. 264. It would seem competent also for a bank to make an agreement with its customer, whereby in the event of his insolvency, it would have the right to apply his deposit upon his unmatured paper.



TRUST COMPANY SECTION

OFFICERS OF THE TRUST COMPANY SECTION

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UZAL H. McCARTER, President Fidelity Trust Company,
Newark, N. J.

FIRST VICE-PRESIDENT

FRANK W. BLAIR, President Union Trust Co., Detroit, Mich.

CHAIRMAN EXECUTIVE COMMITTEE

JOHN W. PLATTEN, President United States Mortgage & Trust
Co., New York.

SECRETARY

LEROY A. MERSHON, Five Nassau Street, New York City.

SECTION NOTES

That the trust companies of the country have supported nobly the resolution of the Executive Committee of the Trust Company Section, as adopted at Briarcliff May 7, in which their services were offered to the Secretary of the Treasury in the flotation of the Liberty Loan, is revealed in the reports now being compiled at the Association office. The peculiar organization of these companies, permitting a prompt compliance with special and unforeseen demands for service, made possible the use of many trained men, with their departmental machinery. This was true of the bond sales departments maintained by many companies in all parts of the country. The inactive condition of the investment market made these facilities available at a time when trained service could and did count largely toward the splendid achievement in floating this first loan. A compilation of figures and other data in this relation will be ready for publication in the next issue of the JOURNAL.

Of great importance to trust companies is the decision rendered by the Supreme Court of the United States June 11, upholding the constitutionality of section 11, paragraph K, of the Federal Reserve Act, which reads as follows:

"To grant, by special permit to national banks, applying therefor, when not in contravention of state or local

law, the right to act as trustee, executor, administrator or registrar of stocks and bonds, under such rules and regulations as the said Board may prescribe."

This is the first case to be decided by the Supreme Court, involving any part of the Reserve Act. This case, the progress of which has been published from time to time in this JOURNAL, was conducted, through counsel, by the Special Committee on Legislation, created for this purpose by the Executive Committee of the Trust Company Section at its meeting March 31, 1915. Although the decision is contrary to the contention of the trust companies, the committee was untiring in its efforts to have final interpretation placed upon this portion of the law. The full opinion as rendered by the court, as well as the interpretation thereof, may be found on other pages of this issue of the JOURNAL.

An analysis of the several amendments to the Federal Reserve Act is published in this issue of the JOURNAL. Briefly, the amendments cover branch Federal reserve banks, reserve bank directors and Federal reserve agents, state bank membership, which includes entrance, withdrawal, examinations, charter powers and rediscounting features; exchange and collection provisions; acceptances; foreign agencies and correspondents; reserve note issues; gold settlement fund; deposit of government bonds; reserves and fees.

FEDERAL RESERVE AS A CRITERION

In a recent issue of the *Review of the River Plate* appears a translation of an article written by Dr. Ezequiel Ramos Mexia, in which he summarizes the unorganized state of the Argentine banking system. The article was written out of a sense of duty, says Dr. Mexia, and was inspired by a study of the banking organization instituted in the United States by the Federal Reserve Act. In the first chapter of his article Dr. Mexia says that "all up-to-date countries live under a banking regime created by custom, established by legislation or deriving from both these origins, and they enjoy the benefits of an organization more or less modern or antiquated, more or less perfected or scientific, designed to regulate economic phenomena, to defend national interests and to protect the institutions in which savings are accumulated and from which credit is distributed. Argentina is one of the few exporting countries of relative importance in international commerce, which remains in a state of the most complete disorganization, without banking system and with no legislation governing such important factors of its economy."

Dr. Mexia believes that "in union there is strength." He says: "A bank isolated is like an advanced fortress on a frontier threatened by a strong army, incapable of hold-

ing out for long against a violent attack; whereas as a part of a powerful organization, surrounded by entrenched camps, protected by abundant reserves and maintaining a constant contact with all its other constituent forces, it becomes capable of withstanding the most furious assaults.

"This indispensable banking organization is possessed by all the nations of Europe. It has also existed, although in a defective form, perhaps, in the United States since the year 1838, when the first banking act was passed in the state of New York, being converted into a Federal law in 1863, and that system has recently been perfected by the already famous Federal Reserve Act of 1913. It is only in Central and South America that we find nations serenely content to accompany us in the delightful insouciance in which we live in this respect imagining ourselves in the best of worlds without even making mention of the absolute necessity for a great legislative reform which shall render our crises less severe and less frequent and allow a more efficacious development of the productive sources of the country and defend with greater solicitude in the daily-more-intense struggle which competition creates amongst all peoples."

SAVINGS BANK SECTION

OFFICERS OF THE SAVINGS BANK SECTION

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GEO. E. EDWARDS, President Dollar Savings Bank,
New York, N. Y.

FIRST VICE-PRESIDENT

JOSEPH R. NOEL, President Noel State Bank, Chicago, Ill.

SECRETARY

MILTON W. HARRISON
Five Nassau Street, New York City.

BANKING EFFICIENCY DURING WAR

The natural inertia of a great public is slowly being aroused to the exigencies of war, to the fact that we are at war.

The tremendous problems which face a nation in the throes of unprecedented peril are difficult of solution. That they will be solved is inevitable; there should be no fear of that. The adjustment of business to that of war meets constant opposition. But when the peril is appreciated the opposition is fast overcome. Within the memory of the present generation of this nation there has been no great war. The Spanish war was mere flurry. Economy was unnecessary. The course of usual business was undisturbed. The curbing of extravagance was not demanded. Throughout the period of the past generation our national prosperity has vastly increased and enterprise has been abundant. In a decade and a half our wealth and income doubled. Some of us saved, most of us spent. This latter fact largely determined our success. For this the American people are not to be condemned but praised. For in the threshing of wheat there must be chaff; in the progress of a nation there must be waste. In the drawing of plans and the building of machines efficiency demands a reckoning in advance of the loss of effort in the necessary experiments. The giant strides we have made in the past decade have been determined by costly mistakes and lessons learned. When an attempt is made to co-ordinate one hundred million ideas there is apt to be considerable waste; hence our reputation as a nation of wasters is partly justified—necessity demanded it. This reputation, however, is offset by the fact that we are the wealthiest and most influential nation in the world; we produce the most, we save the most and we do the most business. A nation that does an average business of ten

billion dollars a week is indeed most powerful. A few billions a year of waste seems negligible. But the task of eliminating unnecessary waste in the nation's business is herculean, for in the efficiency gained thereby lie the marvelous potentialities of our great country. This is true thrift; it is efficiency in action; it is spending for bigger and better business; it is cost accounting; it is an appreciation of values; it means operating the bank with improved and up-to-date methods; it means covering the town and the country around with the bank's services; it is the realization on the part of those managing the bank that the advancement of the community depends upon their ideas and encouragement. All this is thrift because it is wise and produces good business. Go from town to town and you will find the wideawake towns have live wire bankers in them—thrifty bankers, who know a good thing when they see it, and know what good value is.

The adjustment of our business and private activities to a war basis is in many instances difficult; but when patriotism rules supreme these difficulties vanish. Moreover, it is soon observed that the business of the bank is not materially changed but increased when the nation is at war.

The added production of necessities and of materials of war, together with the responsibility of providing our Allies with munitions and foodstuffs make the bank's position an important and busy one in the extension of credit and in furnishing funds.

The banker will be called upon to do his "bit," and he stands ready and willing to give full measure, pressed down and running over, and in addition the business of the war so far as the banker is concerned will be carried on efficiently and effectively.

COMBINATION BUDGET AND CHECK BOOK

The professional advertising man says that the bank business is no different from any other, and that it can be advertised as well and successfully as hardware and clothing. Banks, on the other hand, maintain that theories which would succeed in other lines would fail in bank advertising.

This is true to a certain extent. The problem of advertising for new accounts is in a measure a more difficult task than advertising products for sale.

In these days when economy and thrift are watchwords throughout the nation, however, there is no reason why a good plan would not prove as effective as some of

the successful campaigns we see in the daily press from time to time.

The large volume of free advertising which the present situation offers has led us to analyze statistics at hand, tabulate results of circularizing, newspaper and other advertising efforts for securing new accounts.

The results show that most circularizing falls short of its object. It should go a step further and offer an immediate incentive to the depositor for opening the account and later co-operation in helping him build it up.

A method which suggests itself as a forcible advertisement while at the same time serving a practical pur-



pose has been planned by the Savings Bank Section of the American Bankers Association in the form of a combined check and account book as illustrated.

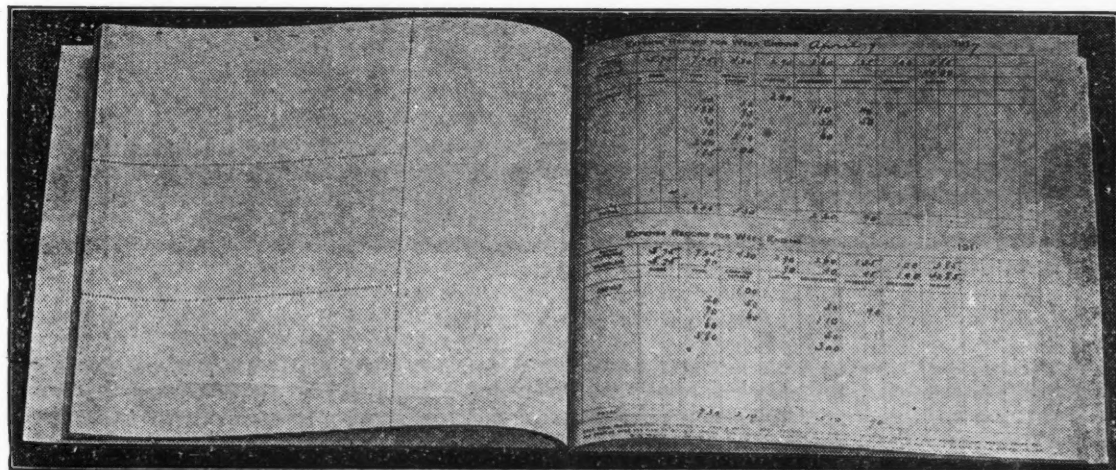
Both the check and account pages are planned on the budget system. In the expense book eight ruled columns are provided—one for each of the principal divisions of living. The stubs on the checks are also provided with similar headings. After a check is drawn the amount is placed opposite the proper item on the stub. Later it is transferred to the account columns in the back of the book.

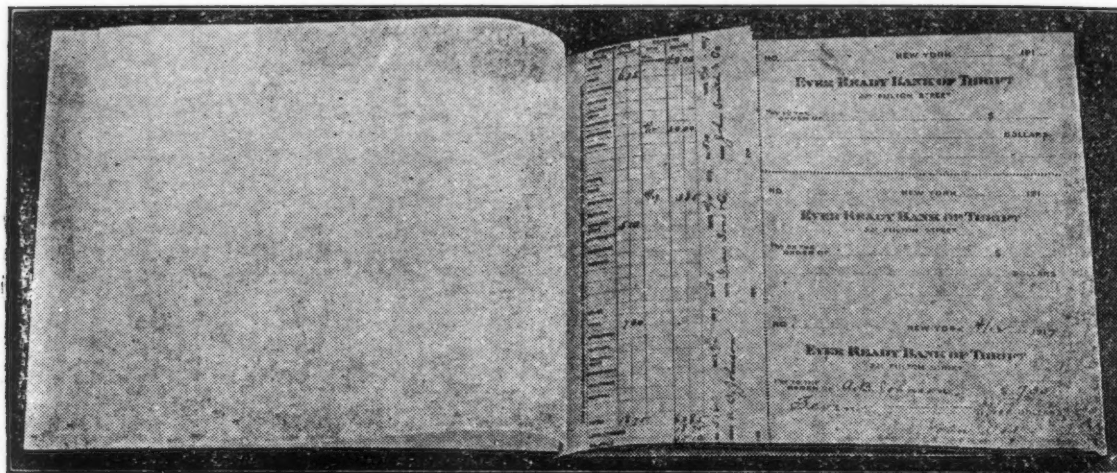
By adopting the budget plan the habit of making up a weekly allowance is encouraged as expenditures are held within a given amount. At the end of the week if the total expenditure exceeds the weekly allowance a deficit is incurred. If total is less a surplus is secured. The deficit is entered in the next week's account directly under

the item to which it applies; thus acting as an expenditure against the coming week's allowance and thereby decreasing the amount available. A surplus is entered over the item to which it applies and with the allowance already entered, increases the amount available.

Thus it will be noted that while expenses on the several items may vary from week to week, they will be off-set by careful management and a surplus will gradually accumulate to enable cash payments on larger items, such as clothes, rent and insurance. There are no cross columns to total each week or balance to strike. Unpaid bills are entered in the proper columns as deficits, thus making it possible to start keeping accounts at any time.

The system is original and offers an attractive and efficient plan for encouraging thrift. It should stimulate savings and bring closer co-operation between the bank





and its depositors. It should result in larger balances and fewer over-drawn accounts.

For savings banks where no checking accounts are carried, checks are omitted, thus making it a simple account book and excellent advertisement. Write to the Secretary of the Savings Bank Section for further information.

SECTION NOTES

NEW MEXICO AND THRIFT.

Magdalena, New Mexico, is a growing town of 1,250 people, mostly Mexicans, and two real live banks, the First National Bank and the Bank of Magdalena. The president of the first bank—Allen Falconer—is a real live American who believes in progress and good ideas. He writes: "We were fortunate in being able to secure the 'Dollar and the Law' about five weeks ago, and we gave both afternoon and evening performances with crowded houses. It created a great deal of enthusiasm and favorable comment." Observe, a thrift campaign which obtained results and in a part of the country far from the great centers of industry. Magdalena is to be commended.

JUNIOR SAVINGS.

The junior department of Schenectady Savings Bank, New York, was organized November 20, 1911. It has opened and reopened 3,212 accounts, and 1,677 transfers

of one dollar each have been made to regular interest bearing accounts. It has 631 open accounts, with an average balance of twenty-six cents and an average age of depositors of eleven years. This bank is consistently living up to its purpose, the encouragement of thrift.

ANALYSIS OF ACCOUNTS.

Additional demands upon the part of the public for service from every department of the bank, coupled with the increased cost of operation and the constant lowering of rates, makes the analysis of every account in the bank desirable. It may be difficult to assess a service charge against customers who do not carry balances from which satisfactory earnings may be made. Some banks are finding that through a little diplomacy it can be done. It is certain that the time has arrived for the lowering of rates paid on deposits or at least looking to some plan that will permit of a downward fluctuation. The banks in one of the southern states are paying as high as 4.86 per cent. on deposits with an average rate of but 6 per cent. on loans. It is unscientific and unbusinesslike to pay a fixed high rate on deposits when the market for money and the rates received thereon fluctuate as they do in America. Manufacturers have been severely criticized during recent months for not being able to determine as to what is the cost of producing the goods they put upon the market. Shall it continue to be said that banks do not know the cost of money and the expense of operation of their various departments? A proper system of analysis of accounts will help to put every department of the bank on an earning basis.



CLEARING HOUSE SECTION

OFFICERS OF THE CLEARING HOUSE SECTION

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VICE-PRESIDENT

JOHN McHUGH, Vice-President Mechanics & Metals National Bank, New York, N. Y.

CHAIRMAN EXECUTIVE COMMITTEE

STODDARD JESS, President First National Bank, Los Angeles, Cal.

SECRETARY

JEROME THRALLS, Five Nassau Street, New York City.

MONTHLY CLEARINGS

CLOSER SUPERVISION ESSENTIAL

There never was a time in the history of America when close and proper supervision of banks was more desirable than at the present. The banks will face heavily increased demands from production, commerce and industry because of the war; this coupled with the part the banks must take in financing the government will bring to the clearing house centers tremendous additional responsibilities. New industries must necessarily be launched, involving billions of dollars. We are not experienced in war. These war industries in some form or other will appear in every community. New hazards will confront every enterprise. To deal with these new conditions promptly and safely every banker must call to his command all available data, credit information, and if possible get the composite judgment of his competitors as well as the advice of his associates.

How can this be done? It can safely, promptly and profitably be accomplished by the appointment of a clearing house committee and the establishment of a system of clearing house examinations. Such examinations deal a death blow to illegitimate schemes, make the financing of legitimate business easier and cement the banks together, thereby protecting them and the communities they serve.

The fact that no depositor ever lost a dollar because of the failure of any bank under clearing house examiner supervision is ample testimony to the tremendous value of clearing house examinations. If your association has not instituted the clearing house examiner system, look into it at once. The Secretary of the Clearing House Section will gladly furnish you full information. Now is the time to add strength and protection to your business. The test may come. It is better to meet it than to have it meet you.

ORGANIZE AND UNITE COUNTRY CLEARING HOUSES

The improvement in the machinery for collecting out-of-town cash items is certain but slow. The signs of the times are that this feature of banking must be speeded up. There are millions of checks passing through the transit departments of commercial banks, through country clearing houses and through the Federal reserve banks daily. Many of these are in course of liquidation for a period of from four to six days, which might readily be converted into available funds within three days should the clearing houses in certain natural centers follow the lead of the eleven progressive associations that conduct country check collection departments in connection with their regular clearing house machinery.

Through these departments, not only quick liquidation is possible, but the most efficient and economical service can be rendered. Every item of expense can be reduced, a tremendous waste in labor, stamps and stationery can be eliminated. A country check collection department can be operated to advantage by the clearing house in any city

where one million dollars or more in out-of-town items are available for concentration in such an office.

By establishing a few additional departments of this character the whole country will have been covered in such way as to make it possible to unite these departments in a national organization, thereby providing for all sections of America the most efficient and economical collection plan known to the world. Time and distance cannot be eliminated, but quick liquidation of checks with periodical transfers of balances can be provided.

CONFERENCE OF EXAMINERS AND MANAGERS

No clearing house examiner or manager can afford to miss the conference to be held at Atlantic City Monday, September 24, 1917, the first day of the convention of the American Bankers Association. Two separate sessions will be held in the morning, one for the examiners, the other for the managers. A joint session will be arranged for the afternoon. Questions of vital importance to clearing houses and to the associated banks will be discussed. New plans and methods for facilitating the handling of business in the clearing houses and banks as well as improvements in the old machinery will be presented and developed. A delegate in attendance at the first conference stated that he learned more in two days at the conference than he would have learned at home in two years. Let us make this an important meeting. Co-operation and efficiency are the vital factors of the day. The clearing house is the place to develop them. Much depends upon the alertness and industry of the managers and examiners.

EFFICIENT CO-OPERATION

There is a community in the state of Illinois where, during the recent Liberty Loan campaign, every influence of value was set to work, efforts of all factors were coordinated, advertising space used by banks in the local papers was consolidated, waste of material was eliminated, factional lines were wiped out, and the greatest possible results were attained. This was accomplished through the machinery of the Tri-City Clearing House of La Salle, Oglesby, and Peru, Ill.

This new organization has demonstrated that while co-operation is cheap, it is the greatest factor in modern business. Now that we are at war it is necessary to mobilize not only the money, food and man-power of the nation, but it is equally as essential that the thought, judgment and ideas of the various communities and businesses be also mobilized. Through the formation of a clearing house association this may be done, so far as concerns banks.

ADOPT THE "GO-BACK" PLAN

The clearing houses of Buffalo, N. Y., and Spokane, Wash., have adopted the plan for clearing "go-backs" or

return items. This idea saves much time, labor and trouble, and can be adopted to advantage by any clearing house. If your association has not adopted this plan, the Clearing House Section will be glad to furnish any information you may desire regarding it.

THE NO-PROTEST SYMBOL PLAN

This is a period when efficiency and economy count for much. The "No-Protest Symbol Plan" saves much time, labor and expense in handling cash items. This plan affords a safe and convenient method of transmitting no-protest instructions automatically through all hands to the final paying bank. Its usefulness and popularity have been established by the fact that about 10,000 banks have already adopted it. The Secretary of the Clearing House Section will be glad to furnish full information to those who are interested.

THE NUMERICAL SYSTEM

Every bank in America that is not using the numerical system should take steps immediately to see that the numbers assigned to it under the system are placed upon all its checks and drafts; also that the numbers assigned to its correspondent appear in conjunction with the name of its correspondent upon drafts.

A book (the Key to the system), containing a list of all banks arranged alphabetically, under the head of each state, together with the numbers assigned thereto, and another list with the banks arranged in the order of the numbers assigned, has been printed.

A supply of these are now on hand, and the Section will be glad to furnish them at cost, \$1.50, or this book may be procured from Rand, McNally & Company, of Chicago, at the same price.

NEW ORGANIZATIONS

Clearing house associations have been formed at Bismarck, N. D., Waterloo, Iowa, and La Salle, Ill. The La Salle Association is a tri-city affair, which includes the banks of Oglesby and Peru. These three new organizations are doing very effective work.

A clearing house should be organized in every community where there are three or more banks. The Section will be glad to furnish full information as to how to organize, and the benefits that may be derived from organization.

ANOTHER MEMBER OF THE ONE HUNDRED CLUB

The Clearing House Association of Vicksburg, Miss., has made arrangements to report the total bank transactions of that city. This line of statistics is the best barometer of business development and activity that can be obtained. It is hoped that at least sixty additional

cities will begin making these reports during the year.

Arrangements have been made whereby a comparison of the total bank transactions of the cities reporting, with the bank clearings of those cities, will be given quarterly. The JOURNAL-BULLETIN for June contained the first of these reports; the second report will appear in the next edition. If your association is not reporting, the Clearing House Section will greatly appreciate your using your influence to the end that it make arrangements to do so at the earliest possible date. The method of compiling the figures, after the first few weeks, becomes almost automatic. Detailed information will be found on pages 249 and 250 of the September, 1916, issue of the JOURNAL. If you do not have a copy of that issue, the Section will be glad to furnish the information to you upon receipt of your inquiry.

NEW SECTION MEMBER

The Pueblo (Colorado), Clearing House Association has joined the Clearing House Section. The following clearing houses are *not* members:

Albany, Ga.,	Homestead, Pa.,
Ann Arbor, Mich.,	Kalamazoo, Mich.,
Asheville, N. C.,	Lynchburg, Va.,
Atchison, Kan.,	Medford, Ore.,
Bartlesville, Okla.	Muncie, Ind.,
Belton, Texas,	Nebraska City, Nebr.,
Binghamton, N. Y.,	Ocala, Fla.,
Bowling Green, Ky.,	Oil City, Pa.,
Charlotte, N. C.,	Palestine, Texas,
Cheraw, S. C.,	Passaic, N. J.,
Connellsville, Pa.,	Pittsburg, Kan.,
Cordele, Ga.,	Ritzville, Wash.,
Dubuque, Iowa,	Rome, Ga.,
Elberton, Ga.,	Saginaw, Mich.,
Estherville, Iowa,	Santa Monica, Cal.,
Eugene, Ore.,	Shreveport, La.,
Franklin, Pa.,	Valdosta, Ga.,
Gainesville, Fla.,	Vidalia, Ga.,
Hammond, Ind.,	Waco, Texas,
Helena, Ark.,	Washington, Ga.
Henderson, Ky.,	

Can you help bring them in? There is no expense involved in membership in the Section. Membership affords an opportunity for exchange of views and ideas. Their becoming members will add strength to the Section. A letter from you to the banker with whom you are acquainted in any of these cities, urging him to use his influence to the end that his clearing house association join the Clearing House Section might bring the desired result. Try it!



NATIONAL BANK SECTION

OFFICERS OF THE NATIONAL BANK SECTION

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J. S. CALFEE, Cashier, Mechanics-American National Bank,
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VICE-PRESIDENT

J. ELWOOD COX, President Commercial National Bank,
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CHAIRMAN EXECUTIVE COMMITTEE

OLIVER J. SANDS, President American National Bank,
Richmond, Va.

SECRETARY

JEROME THRALLS, Five Nassau Street, New York City.

RESOURCES SHOULD BE MOBILIZED

"America First" has been the watchword of every national bank since the Secretary of the Treasury sounded his call to action on the Liberty Loan of 1917. Thousands of officers, directors and employees patriotically responded and have given their entire time to the great cause.

The success of the loan is largely due to their efficient, energetic and untiring efforts. The patriotism and loyalty of the bankers have been tested. This loan is only a starter—another great loan, equally as large or larger, will quickly follow. The machinery must therefore be kept intact, improved, strengthened and put into perfect running order. In addition to the burdens of war and government financing, the banks will face greatly increased demands from production, commerce and industry. We have observed the results of failure to mobilize our military and war forces. Shall the same mistake be made with the banking forces?

The Federal reserve system has not yet faced the real test. It embraces only about one-half of the banking resources; the other half should be mobilized in order to strengthen the system to a degree where it will be able to meet in an adequate way any and all demands that may arise because of America's participation in the war.

The amendments to the Federal Reserve Act, a digest of which follows, meet practically all the vital objections that have been raised, and should open the way for the unification of the banking system:

DIGEST OF AMENDMENTS TO THE FEDERAL RESERVE ACT

Section 3 is amended so as to give the Federal Reserve Board authority to require the Federal reserve banks to establish branches at such points as the Board may designate, within their respective Federal reserve districts, or within the district of any Federal reserve bank that may have suspended.

Section 4 is amended so as to authorize each Federal reserve agent to appoint one or more assistants who shall be authorized to act in the name and stead of the agent during his absence or disability (except in the capacity of chairman of and member of the board of directors).

Section 9 is amended so as to set forth definitely by statute the requirements of state banks and trust companies that enter the Federal reserve system. The principal new conditions applying to state banks and trust companies are that they:

- (a) Shall be required to make not less than three reports to the Federal Reserve Board annually;
- (b) Shall be subject to examinations under the direction of the Federal Reserve Board or Federal re-

serve bank by examiners selected or approved by the Federal Reserve Board, with the further proviso that upon the approval of the board of directors of the Federal reserve bank, examinations made by the state authorities may be accepted—the Board reserving the right to make special examinations;

- (c) Will be privileged to withdraw from the system by giving six months' written notice;
- (d) Will be exempt from the supervision or examination of the office of Comptroller of Currency;
- (e) Will be allowed to make loans up to the limit fixed by the laws of their respective states, but will not be privileged to rediscount with the Federal reserve bank any note, draft or bill of exchange of any borrower who is liable to the bank for an amount greater than 10 per cent. of its capital and surplus (this does not apply to bills of exchange drawn against actually existing values, or commercial or business paper owned by the person negotiating same).
- (f) The act of certification of any check when the person drawing same does not have an amount on deposit with the bank on which drawn equal to the sum specified in the check shall be deemed unlawful.

Section 13, paragraph 1, is amended so as to permit Federal reserve banks to receive deposits from non-member state banks and trust companies for exchange and collection purposes, and that banks shall have a right to make reasonable charges, to be determined and regulated by the Federal Reserve Board, in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, to cover expense and service incurred in remitting.

There is a further proviso that no such charges shall be made against the Federal reserve banks. This last provision will need be interpreted by the Federal Reserve Board. Its author stated that it is intended to mean that no charges shall be made against the Federal reserve banks, to be absorbed by them or charged to their own expense accounts, but would admit of charges being made against the Federal reserve banks, to be passed on by them to the banks that deposited the checks on which the charges were made, with the Federal reserve bank.

Section 13, paragraph 5, is amended so as to provide that member banks shall, under authority of the Federal Reserve Board, have the privilege of accepting drafts or bills of exchange (domestic and foreign) having maturity within six months, in the aggregate of 100 per cent. of the capital and surplus of such respective members; provided, however, that in no case shall a member accept domestic

drafts and bills in the aggregate of more than 50 per cent. of its capital and surplus; the limit of accepting on any one name to be 10 per cent. of the unimpaired capital and surplus, unless secured by documents attached or actual security growing out of the transactions the acceptance covers, in which event the limit which any bank can accept on any one name is 50 per cent. of its paid-up and unimpaired capital and surplus.

Section 14 is amended so as to provide that the Federal Reserve Board shall have the power to cause any Federal reserve bank to open and maintain accounts, appoint correspondents and establish agencies in such foreign countries wheresoever the Board may designate, that is, for collection and exchange purposes and for the purpose of buying and selling bills, acceptances, etc.

Section 16 is amended so as to provide:

- (a) That Federal reserve banks may issue Federal reserve notes against a full cover of gold or gold certificates. The gold or gold certificates held as collateral for Federal reserve notes may, under this new provision, be counted as a part of the gold reserve the Federal reserve bank is required to maintain against its circulation;
- (b) That the Secretary of the Treasury shall be permitted to receive deposits of gold coin or gold certificates when tendered to the Treasurer or any Assistant Treasurer by any Federal reserve bank or Federal reserve agent.

Section 17 is amended so as to provide that banks shall no longer be required to maintain a minimum deposit of United States bonds with the Treasurer of the United States.

Section 19 is amended so as to define "demand" deposits as meaning those payable within thirty days, and "time" deposits as comprising those payable after thirty days; all savings accounts and certificates of deposits subject to not less than thirty days' notice, and all postal savings deposits; and providing that member banks shall establish and maintain reserve balances with their respective Federal reserve banks as follows:

	Against "Demand" Deposits	Against "Time" Deposits
Country Banks.....	7 per cent.	3 per cent.
Reserve City Banks.....	10 per cent.	3 per cent.
Central Reserve City Banks..	13 per cent.	3 per cent.

providing further that no member bank shall keep on deposit with a non-member state bank or trust company a sum in excess of 10 per cent. of its own paid-up capital and surplus.

Section 22 is amended so as to provide that any officer, director, employee or attorney may be paid by his bank the same rate of interest on his deposit as is paid on similar deposits of other patrons, and further shall, on affirmative vote or written assent of at least a majority of the board of directors of the member bank, be privileged to receive accommodations in the way of loans, etc., on the same terms as are granted to other customers.

SUPREME COURT DECISION

A decision has been handed down by the Supreme Court declaring the provisions of Section 11 (k) of the Federal Reserve Act under which national banks are privileged to perform certain functions heretofore enjoyed by trust companies only to be constitutional.

TO STUDY IMPORTANT SUBJECTS

The following committees have been appointed and assigned the duty of making a thorough study and round-up of the questions assigned. The chairman of each committee will submit a report to the Secretary of the Section not later than August 1, 1917, covering the findings of his committee. The Secretary will reduce these reports to the form of a brief which will be printed and distributed to those who attend the meeting of the National Bank Section at Atlantic City, September 26, 1917. These reports will also serve as a basis of a general discussion through which additional information of tremendous value will be developed.

Acceptances

Oliver J. Sands, chairman, president American National Bank, Richmond, Va.

T. P. Beal, Jr., vice-president Second National Bank, Boston, Mass.

B. D. Harris, vice-president National City Bank, New York, N. Y.

L. F. Kiesewetter, vice-president Bank of New York, N. B. A.

John R. Mitchell, president Capital National Bank, St. Paul, Minn.

Joseph Wayne, Jr., president Girard National Bank, Philadelphia, Pa.

Amendments to the National Bank and Federal Reserve Act

W. M. Van Deusen, chairman, cashier National Newark Banking Co., Newark, N. J.

Thos. B. McAdams, vice-president Merchants National Bank, Richmond, Va.

H. H. McKee, president National Capital Bank, Washington, D. C.

L. E. Pierson, chairman of the board Irving National Bank, New York, N. Y.

T. J. Reynolds, president Fourth National Bank, Montgomery, Ala.

Commodity Paper and Paper Eligible for Rediscount with Federal Reserve Banks

Capt. Fred. W. Hyde, chairman, vice-president National Chautauqua County Bank, Jamestown, N. Y.

W. J. Bailey, vice-president Exchange National Bank, Atchison, Kans.

J. L. Hutton, president Mercantile National Bank, Memphis, Tenn.

R. F. Maddox, president Atlanta National Bank, Atlanta, Ga.

C. A. Paine, president National City Bank, Cleveland, Ohio.

Federal Reserve Clearing and Collection System

J. Elwood Cox, chairman, president Commercial National Bank, High Point, N. C.

W. G. Gaither, Jr., cashier First National Bank, Elizabeth City, N. C.

John F. Hagey, vice-president First National Bank, Chicago, Ill.

Stoddard Jess, president First National Bank, Los Angeles, Calif.

Geo. G. Moore, cashier New England National Bank, Kansas City, Mo.

A. C. Trumbo, president Muskogee National Bank, Muskogee, Okla.

J. A. Willett, cashier First National Bank, Newport News, Va.

International Relations and Dollar Exchange

J. W. Spangler, chairman, vice-president Seattle National Bank, Seattle, Wash.

John Clausen, vice-president and manager Foreign Exchange Department Crocker National Bank, San Francisco, Calif.

J. H. Fulton, vice-president National City Bank, New York, N. Y.

J. A. Lewis, vice-president and cashier National Bank of Commerce, St. Louis, Mo.

John Rovensky, vice-president National Bank of Commerce, New York, N. Y.

F. B. Williams, vice-president Whitney-Central Bank, New Orleans, La.

National Bank Examinations

E. K. Smith, chairman, president Commercial National Bank, Shreveport, La.

T. J. Davis, vice-president First National Bank, Cincinnati, Ohio.

Carroll Pierce, vice-president Citizens National Bank, Alexandria, Va.

H. B. Powell, president County National Bank, Clearfield, Pa.

Frank Roberts, president Calcasieu National Bank, Lake Charles, La.

Reserves

C. A. Hinsch, chairman, president Fifth-Third National Bank, Cincinnati, Ohio.

J. D. Ayres, vice-president Bank of Pittsburg, N. A., Pittsburg, Pa.

G. M. Reynolds, president Continental & Commercial National Bank, Chicago, Ill.

F. O. Watts, president Third National Bank, St. Louis, Mo.

George Woodruff, president First National Bank, Joliet, Ill.

Savings Departments and Real Estate Loans

Edward S. Brown, chairman, president Mechanics National Bank, New Bedford, Mass.

Alden Anderson, president Capital National Bank, Sacramento, Calif.

C. G. Osborne, cashier Farmers & Merchants National Bank, Baltimore, Md.

G. E. Pearsall, cashier Citizens National Bank, Des Moines, Iowa.

J. A. Pondrom, vice-president South Texas Commercial National Bank, Houston, Tex.

CHANGE OF RESERVE REQUIREMENTS

The Comptroller of the Currency has sent to all national banks throughout the country the following announcement, under date of June 23:

The President has signed the amendment to the Federal Reserve Act changing reserve requirements of national banks. From this date the law requires all national banks in central reserve cities to maintain in their respective Federal reserve banks a balance of 13 per cent. of demand deposits, banks in reserve cities a reserve of 10 per cent. of demand deposits and country banks a reserve of 7 per cent. of demand deposits. National banks in central reserve cities, reserve cities and also country banks will be required to keep a reserve on their time deposits of 3 per cent. with their reserve banks, instead of the 5 per cent. reserve heretofore required. National banks are not now required to keep reserve against government deposits (exclusive of postal savings).

The law does not require national banks to keep reserves other than those they are required to carry in their respective reserve banks; but each bank will, of course, naturally arrange to carry in its own vault sufficient funds to meet its current cash requirements.

The Federal Reserve Board has requested that national banks in central reserve cities bring their balances with their reserve banks up to the new requirements not later than the 27th instant.

In order that the transfer of increased balances to the Federal reserve banks by country banks and reserve city banks may be made with the least inconvenience, the Federal Reserve Board has suggested that if the reserve increases required under the new law are provided by reserve city banks and country banks not later than July 15, and the reserves carried with the Federal reserve banks are maintained meanwhile at not less than the percentage heretofore required, the Federal reserve banks may omit for this intervening period the imposition of penalties, for reserve deficiencies, against those national banks which shall not before July 15 bring their reserve balances with their reserve banks up to the full percentage required by the new law.

The next call for reports of condition by national banks will require the computation of reserves to be made for the last time on the old basis.

ANALYSIS OF ACCOUNTS

Additional demands upon the part of the public for service from every department of the bank, coupled with the increased cost of operation and the constant lowering of rates, makes the analysis of every account in the bank desirable. It may be difficult to assess a service charge against customers who do not carry balances from which satisfactory earnings may be made. Some banks are finding that through a little diplomacy it can be done. It is certain that the time has arrived for the lowering of rates paid on deposits or at least looking to some plan that will permit of a downward fluctuation. The banks in one of the Southern states are paying as high as 4.86 per cent. on deposits with an average rate of but 6 per cent. on loans. It is unscientific and unbusinesslike to pay a fixed high rate on deposits when the market for money and the rates received thereon fluctuate as they do in America. Manufacturers have been severely criticized during recent months for not being able to determine as to what is the cost of producing the goods they put upon the market. Shall it continue to be said that banks do not know the cost of money and the expense of operation of their various departments? A proper system of analysis of accounts will help to put every department of the bank on an earning basis.

STATE BANK SECTION

OFFICERS OF THE STATE BANK SECTION

PRESIDENT

J. H. PUELICHER, Vice-President Marshall & Isley Bank,
Milwaukee, Wis.

FIRST VICE-PRESIDENT

E. D. HUXFORD, President Cherokee State Bank, Cherokee, Iowa.

CHAIRMAN EXECUTIVE COMMITTEE

C. B. HAZLEWOOD, Vice-President Union Trust Company,
Chicago, Ill.

SECRETARY

GEORGE E. ALLEN, Five Nassau Street, New York City.

State Banks and the Amended Reserve Act

ELSEWHERE in this issue of the JOURNAL-BULLETIN are published the amendments to the Federal Reserve Act recently adopted by Congress and approved by President Wilson. The Federal Reserve Act as amended is liberal in its provisions pertaining to state banking institutions that become members of the Federal reserve system. The examination of state banks and trust companies is specifically removed from the jurisdiction of the Comptroller of the Currency and they are permitted to make loans in accordance with the laws of the respective states in which they are located on condition that no paper shall be rediscounted in excess of the limitations provided by the Federal Reserve Act. The language of the amended act pertaining to examinations and rediscounts is as follows:

Banks becoming members of the Federal reserve system under authority of this section shall be subject to the provisions of this section and to those of this act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this act. [These paragraphs refer to examinations by the Comptroller of the Currency.] Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal reserve system shall retain its full charter and statutory rights as a state bank or trust company, and may continue to exercise all corporate powers granted it by the state in which it was created, and shall be entitled to all privileges of member banks: Provided, however, that no Federal reserve bank shall be permitted to discount for any state bank or trust company notes, drafts or bills of exchange of any one borrower who is liable for borrowed money to such state bank or trust company in an amount greater than ten per centum of the capital and surplus of such state bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section. The Federal reserve bank, as a condition of the discount of notes, drafts and bills of exchange for such state bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

The amended act provides that state banks and trust companies "shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall

subject the offending bank to a penalty of \$100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit or otherwise. As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board. Whenever the directors of the Federal reserve bank shall approve the examinations made by the state authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board; provided, however, that when it deems it necessary the Board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by state authorities, shall be assessed against and paid by the bank examined."

It is the evident intention of the Federal Reserve Board to simplify as far as possible the reports required from state banks that are members of the Federal reserve system. The State Bank Section has offered its services in such work in the hope that reports required by the Federal reserve banks and reports required by state banking departments may be unified. This is an important matter to the smaller institutions in which official and clerical forces are at all times limited and in which the call of men to military service may still further deplete the number of skilled workers.

The questionnaire recently submitted to state banks demonstrated the fact that such institutions are not united on the subject of what relationship, if any, should exist between state banks and the Federal reserve system. Opportunity will be given at the convention of the American Bankers Association, to be held in Atlantic City next September, for the fullest and freest discussion of this important matter. The officers and Executive Committee of the State Bank Section do not possess either the right or the inclination to commit the section to any particular policy, but in view of the fact that amendments to the Federal Reserve Act considered by the Executive Committee at its recent meeting in Briarcliff have been enacted into law, the following resolution adopted at the Briarcliff meeting is reprinted:

Resolved, That this Committee recommend to the state banks of the United States that they consider carefully the Federal Reserve Act and its amendments after the amended bill referred to has become law, with the thought of joining the system (if they feel warranted in doing so) in order to strengthen the banking power of the United States of which they are so important a part.

STATE SECRETARIES SECTION

OFFICERS OF THE STATE SECRETARIES SECTION

PRESIDENT

S. B. RANKIN, Secretary Ohio Bankers Association, Columbus, Ohio.

FIRST VICE-PRESIDENT

GEORGE D. BARTLETT, Secretary Wisconsin Bankers Association, Milwaukee, Wis.

SECOND VICE-PRESIDENT

FREDERICK H. COLBURN, Secretary California Bankers Association, San Francisco, Cal.

SECRETARY-TREASURER

W. A. PHILPOTT, JR., Secretary Texas Bankers Association, Dallas, Tex.

MICHIGAN AT DETROIT

Michigan's thirty-first annual convention, June 19 and 20, was held in Detroit. William Livingstone, president Dime Savings Bank of Detroit, made the address of welcome and Herbert E. Johnson, president Kalamazoo City Savings Bank, Kalamazoo, responded. Following the annual address of the president, William J. Gray, came the reports of the various officers. Addresses were: "The Operation of the Federal Farm Loan Act," E. G. Quamme, president Federal Land Bank of St. Paul; "The Sinews of War," Hal H. Smith, association counsel, Detroit; "The Vital Part Thrift Plays with Relation to the War," M. W. Harrison, Secretary Savings Bank Section, A. B. A.; "Business During the War," W. P. G. Harding, Governor Federal Reserve Board; "Condition of the State of Michigan," James Schermerhorn, Detroit; "The Banker's Share in Rebuilding Rural Michigan," Rev. W. W. Diehl, Lansing; "Boys and Girls as Producers," E. C. Lindemann, state club leader, Lansing; "The State Industrial Agent—An Agricultural Proposition," F. H. Williams, Allegan; "The Organization of a Community," Bert Ball, secretary Crop Movement Committee, Chicago; "The Outlook for Democracy," William H. Hobbs, University of Michigan, Ann Arbor. There was discussion at each day's session. Entertainment included a reception and dinner at the Detroit Athletic Club, musical entertainment and luncheon.

The following officers were elected: President, Frank W. Blair, president Union Trust Company, Detroit; first vice-president, J. H. Rice, president Houghton National Bank, Houghton; second vice-president, Otto Schupp, vice-president and cashier Bank of Saginaw, Saginaw; treasurer, Chalmers Curtis, president First National Bank, Petoskey; secretary, Mrs. H. M. Brown, Michigan Bankers Association, Detroit (re-elected); counsel, Hal H. Smith, Detroit.

To represent the American Bankers Association in Michigan, the following were chosen: Vice-president for Michigan, G. J. Diekema, president First State Bank, Holland; member Executive Council, A. G. Bishop, president Genesee County Savings Bank, Flint.

OFFICERS MAINE ASSOCIATION

At a meeting of the Maine Bankers Association, June 9, the following officers were elected: President, Henry F. Libby, cashier Pittsfield National Bank, Pittsfield; vice-president Frank E. Smith, secretary-treasurer Augusta Trust Company, Augusta; secretary (re-elected), Edward S. Kennard, cashier Rumford National Bank, Rumford; treasurer (re-elected), George A. Safford, treasurer Hallowell Trust & Banking Company, Hallowell.

As representatives of the American Bankers Association in Maine the following were chosen: Vice-president for Maine, Henry F. Libby, cashier Pittsfield National Bank, Pittsfield; member Nominating Committee, Sewell T. Maddocks, cashier First National Bank, Boothbay Harbor; alternate, Eugene M. Hewett, cashier Sanford National Bank, Sanford.

COLORADO BANKERS MEET

At the two days' session of the Colorado bankers at Glenwood Springs, June 13 and 14, the following made addresses: W. L. McCaslin, president Farmers National Bank, Longmont, on "Stock Feeding in Relation to Farming and Banking"; Joseph D. Hitch, president Irrigated Farms Mortgage Company, Denver, on "Farm Mortgages"; Cary B. Adams, assistant cashier First National Bank, Delta, on "Exchange Charges"; Horace G. Lunt, of Colorado Springs, on "Chattel Mortgages"; H. B. Baker, vice-president National City Company, New York, on "The Relation of the Investment Banker to the General Banking Conditions."

Theodore G. Smith, vice-president International Trust Company, Denver, in his address, "The War and Finance—Are We Doing Our Part?" made a strong plea for Liberty bonds. Mr. Van Riper, of Boetcher, Porter & Company, Denver, gave an interesting and instructive talk on the Liberty Loan.

The following were elected: President, D. T. Stone, president United States Bank & Trust Company, Grand Junction; vice-president, W. L. McCaslin, president Farmers National Bank, Longmont; secretary (re-elected), Paul Hardey, cashier Interstate Trust Company, Denver; treasurer (re-elected), W. F. Boyd, cashier Saguache County Bank, Saguache.

The following are the new A. B. A. representatives: Vice-president for Colorado (re-elected), Theodore G. Smith, vice-president International Trust Company, Denver; member Nominating Committee, H. M. Rubey, president Rubey National Bank, Golden; alternate, H. J. Coerver, vice-president Delta National Bank, Delta.

PENNSYLVANIA BANKERS

Again the Pennsylvania Bankers Association held its convention in Bedford Springs. It was the twenty-third meeting and the date was June 7 and 8. P. W. Goebel, President American Bankers Association, Kansas City, Kan., was presented to the meeting when the officers had made their reports. He discussed the work of the American Bankers Association in floating the Liberty Loan and urged bankers to assist in this work as much as possible.

The next speaker was William A. Law, president First National Bank, Philadelphia, who spoke on the Liberty Loan. Five-minute speeches were then made on the loan by the following: Grier Hersh, Edward B. Robinette and John H. Mason. At the instance of Joseph Wayne, Jr., president Girard National Bank, Philadelphia, a resolution was adopted that members of the association use their utmost endeavors to distribute among the investors in their respective communities Liberty Bonds to the amount of at least 10 per cent. of the banking assets. The president then announced that the Council of Administration had invested \$5,000 of unemployed funds in the Liberty Loan. E. G. McWilliam, President American Institute of Banking, New York, spoke on the "Institute and the Banks," and William W. Allen, Jr., president Philadelphia Chapter, A. I. B., entitled his address, "Defenses of Negotiable Instruments in Pennsylvania." H. Parker Willis, secretary of the Federal Reserve Board, discussed the "Banking Functions of Trust Companies" before the Trust Company Section of the association. A resolution was adopted recommending the formation of a separate section in each group of the association composed of all the trust companies of the groups to promote the best interests of the trust companies in the section and the state. John Greiner, Jr., Lackawanna Trust Company, Scranton, also spoke before the Trust Company Section.

The following officers were elected: President, Lawrence E. Sands, president First-Second National Bank, Pittsburgh; vice-president, Frank M. Horn, cashier National Bank of Catsauqua, Catsauqua; secretary (re-elected), D. S. Kloss, Tyrone; treasurer (re-elected), R. J. Mattern, cashier Union National Bank, Huntington.

The A. B. A. elections are: Members Executive Council, John H. Mason, vice-president Commercial Trust Company, Philadelphia; J. W. B. Bausman, president Farmers Trust Company, Lancaster, and H. G. Siegfried, cashier Easton National Bank, Easton; vice-president for Pennsylvania, Joseph Wayne, Jr., president Girard National Bank, Philadelphia; member Nominating Committee, Francis Douglas, cashier First National Bank, Wilkes-Barre; alternate, Harry J. Haas, vice-president First National Bank, Philadelphia.

IOWA BANKERS AT DES MOINES

On June 14 and 15 the Iowa Bankers Association held its thirty-first annual convention in Des Moines. Grant McPherrin, president Des Moines Clearing House Association, welcomed the bankers and President Parker merged the response with his annual address. Mr. Parker spoke of Iowa, present and future, and sought to impress the bankers with the necessity for concerted and patriotic action at this time. The speakers were: Governor W. L. Harding, P. W. Goebel, President American Bankers Association, Kansas City, Kan.; former Congressman Pickett of Waterloo, Nicholas Murray Butler of New York, G. I. Christie of Purdue University and ex-Senator Theodore E. Burton.

The new officers are: President, S. M. Leach, president Adel State Bank, Adel; vice-president, Parley Sheldon, president Story County Bank, Ames; treasurer, F. D. Ball, president First National Bank, Prescott; secretary (re-elected), Frank Warner, Des Moines.

The following were elected to represent the American Bankers Association: Vice-president for Iowa, A. F. Balch, president Marshalltown State Bank, Marshalltown;

members Executive Council, Homer A. Miller, president Iowa National Bank of Des Moines, Des Moines, and A. C. Smith, vice-president and cashier City National Bank, Clinton; member Nominating Committee, A. F. Dawson, president First National Bank, Davenport; alternate, E. L. Johnson, vice-president Leavitt & Johnson Trust Co., Waterloo.

MISSOURI A. B. A. ELECTIONS

At the annual convention of the Missouri Bankers Association the following A. B. A. elections were made: Vice-president for Missouri, Dale S. Flowers, cashier Gentry County Bank, Albany; members Executive Council, W. C. Gordon, cashier Farmers Savings Bank, Marshall, and W. H. Powell, president Citizens National Bank, Sedalia; member Nominating Committee, J. F. Rauch, president Union Savings Bank, St. Charles; alternate, J. S. Calfee, cashier Mechanics-American National Bank, St. Louis.

CALIFORNIA MEETING

On May 17, 18 and 19 more than 200 bankers visited Sacramento on the occasion of the twenty-third annual convention of the California Bankers Association. President Henderson's annual address was a presentation of the seriousness of the times and an exhortation to the bankers not to fail in their duty. Joseph Hirsch, chairman Agricultural Commission, A. B. A., Corpus Christi, Tex., spoke on the work and purposes of the Commission, while Thomas F. Hunt, of the College of Agriculture, University of California, spoke on "The California Farmers." Burrell G. White, president Federal Land Bank of Berkeley, Berkeley, spoke on the land bank system and recited what the system can and will do. W. R. Williams, state superintendent of banks, entitled his address, "Recent Amendments to California Bank Act," while Cyrus Pierce, of San Francisco, spoke on "The Probable Effect of the War on Bond Values." There was also a display of live stock. Ten-minute talks were given on cattle, hogs, sheep, draft horses and cows. The relations between the farm school student and the banker were discussed by Dean H. E. Van Norman of University of California. The necessity for co-operation in the flotation of the Liberty Loan was elucidated by John S. Drum of San Francisco, who was the "Liberty Loan Envoy" to the convention. A delegation of Arizona bankers was heard in a plea for a fight on the Hayes bill. A general discussion ensued and it was given as the sense of the meeting that the California bankers join the Arizona bankers in opposition to this measure. A committee was appointed to take the matter before the Council and determine the manner of campaign.

Governor William D. Stephens said a word of greeting to the association and asked the unselfish co-operation of the bankers during the war. An important feature of the convention was a conference of trust company representatives, who formed a tentative organization and asked permission of the association to become a section.

The new officers are: President, F. J. Belcher, Jr., cashier First National Bank, San Diego; vice-president, W. D. Longyear, vice-president Security Trust & Savings Bank, Los Angeles; secretary (re-elected), F. H. Colburn, Mills Building, San Francisco; treasurer, Charles L. Davis, assistant cashier Wells-Fargo Nevada National Bank, San Francisco.

The A. B. A. members at the meeting elected the following: Vice-president for California, P. E. Hatch, vice-president Long Beach Savings Bank & Trust Company, Long Beach; member Executive Council, J. M. Henderson, Jr., president Fort Sutter National Bank, Fort Sutter; member Nominating Committee, E. D. Roberts, president San Bernardino National Bank, San Bernardino.

MISSISSIPPI'S NEW OFFICERS

At its annual convention held in Greenville, May 22 and 23, the Mississippi Bankers Association elected the following officers: President, W. P. Kretschmar, president Commercial Savings Bank, Greenville; first vice-president, R. C. King, cashier Bank of Commerce, Greenwood; secretary (re-elected), T. H. Dickson, Vicksburg; treasurer, E. P. Peacock, president Bank of Clarksdale, Clarksdale.

MEETING OF IDAHO BANKERS

One of Idaho's best conventions was the three-day session in Boise, May 22-24. The bankers were welcomed by Mayor S. H. Hays, of Boise, and by F. R. Coffin, president Boise Clearing House Association. F. N. Shepherd, cashier Empire National Bank, Lewiston, reported for the Liberty Loan Committee of the association on the plans for placing Liberty Bonds. W. D. Vincent, President Clearing House Section, A. B. A., Spokane, Wash., prefaced his paper on "Effectiveness" with a brief account of his eastern trip urging the people to realize what war means. Other speakers were: F. A. Freeman, vice-president Lumbermen's Trust Company, Portland, Ore., who spoke on "Western Municipal Bonds"; E. H. Plowhead, cashier Caldwell Commercial Bank, Caldwell, on "The Banker and Live Stock Loans"; C. L. Smith, agriculturist Oregon-Washington Railway & Navigation Company, on "The Bankers and Farming Methods"; G. E. Bowerman, president First National Bank, Ashton, on "The Country Banker and the A. B. A."; and F. N. Shepherd, of Lewiston, who entitled his address "It's Up to Us, Mr. Banker." On receipt of a telegram from Thomas P. Paton, General Counsel A. B. A., it was moved that the legislative committee wire the Idaho Congressmen, asking their support of the Hardwick amendment.

The second day was given up to entertainment. The bankers went over the Boise-Payette Lumber Company's railway to its logging camp, where they were enabled to see tree felling. The same train carried them to Arrowrock Dam, the highest in the world, which controls the waters of the Nampa and Boise valleys. In the evening there were diving and swimming exhibitions at the Natatorium and a dance given by a local organization.

The new officers are: President, J. C. Blackwell, cashier Parma State Bank, Parma; vice-president, D. W. Davis, president First National Bank, American Falls; treasurer, J. A. McDonald, cashier First National Bank, Ashton; secretary (re-elected), J. W. Robinson, secretary Union Savings & Trust Company, Boise. The A. B. A. elections are as follows: Vice-president for Idaho, Walter E. Miller, president First National Bank, Nampa; member Nominating Committee, J. B. Randall, vice-president Oakley State Bank, Oakley; alternate, Craig H. Coffin, cashier Boise City National Bank, Boise.

OKLAHOMA A. B. A. ELECTIONS

At the Oklahoma convention the following A. B. A. elections were made: Vice-president for Oklahoma, L. E. Phillips, vice-president Bartlesville National Bank Bartlesville; member Executive Council, T. H. Dwyer, president Chickasha National Bank, Chickasha; member Nominating Committee, G. E. Dowis, cashier First National Bank, Blackwell; alternate, O. J. Fleming, president Enid National Bank, Enid.

TO CONSIDER RESERVE SYSTEM

George Yakel, vice-president Commonwealth Bank, Baltimore, Md., was made chairman of a committee of the Maryland Bankers Association to consider the advisability of the state banks and trust companies of Maryland joining the Federal reserve system. This committee was appointed at the recent convention of the Maryland association in Atlantic City. Mr. Yakel and his committee are anxious to have Maryland take this step as a unit. Now that Congress has passed the amendments to the Reserve Act, which make entry into the system easier for state banks than it was heretofore, it is expected that Mr. Yakel's committee will make a report.

KANSAS CONVENTION

The Kansas Bankers Association made its thirtieth annual convention in Topeka, May 24 and 25, one of its best. President L. H. Wulfekuhler presided. The speakers were: Henry J. Waters, president Kansas State Agricultural College, Manhattan, on "Kansas' Responsibility in the War"; P. W. Goebel, President American Bankers Association, Kansas City, Kan., on "Paramount Issues"; George A. Neeley, president Farmers National Bank, Hutchinson, on "What Are the Wild Waves Saying?"; C. E. Snyder, chairman Senate Committee on Banks and Banking, Leavenworth, on "A Resume of Recent Banking Legislation," and a talk on the same subject by L. A. Johnson, chairman House Committee on Banks and Banking, Sharon Springs; Charles E. Lobdell, of the Federal Farm Loan Board, Washington, D. C., on "The Banker's Interest in the Federal Land Bank System"; J. W. Perry, president Southwest National Bank of Commerce, Kansas City, Mo., on "Present Day Perils"; Walter E. Wilson, bank commissioner, on "The Challenge of the Banker"; George A. Gilmore, of Omaha, Neb., on "The Effects of Our Entrance in the Great War, Socially, Financially and Economically"; Dr. Charles E. Barker, of Washington, D. C., on "How to Live One Hundred Years." At the third session the convention was honored by a message from Governor Arthur H. Capper of Kansas. J. A. S. Pollard, cashier Fort Madison Savings Bank, Fort Madison, Iowa, spoke at the second session.

MISSISSIPPI AT GREENVILLE

Mississippi bankers taxed the capacity of the city of Greenville to take care of them on the occasion of the twenty-ninth annual convention of the Mississippi Bankers Association, May 22-23. President J. A. Bandi gave an interesting resume of the operation of the depositors' guaranty law in his annual address and touched on the various

subjects of moment. Herbert Quick, of the Federal Farm Loan Board, showed wherein the land banks differ from other banks and spoke generally on the land bank system. Other speakers were: Alfred H. Stone, member of the Mississippi Legislature, on "The State's Finances"; W. H. Smith, Mississippi Agricultural and Mechanical College, on "The Relation of Capital to Rural Development"; George R. James, vice-president Central-State National Bank, Memphis, on "A National Plan for Food Preparedness." A committee was appointed at the first session to draft telegrams to Congress asking for the adoption of the Hardwick amendment.

The new officers are: President, W. P. Kretschmar, president Commercial Savings Bank, Greenville; vice-president, R. C. King, cashier Bank of Commerce, Greenwood; secretary (re-elected), T. H. Dickson, First National Bank Building, Vicksburg; treasurer, E. P. Peacock, president Bank of Clarksdale, Clarksdale. To represent the American Bankers Association, the following were chosen: Vice-president for Mississippi, J. F. Flournoy, Jr., cashier First National Bank, Canton; member Executive Council, T. W. Yates, cashier Commercial Bank & Trust Company, Laurel; member Nominating Committee, W. D. Davis, cashier Brookhaven Bank & Trust Company, Brookhaven; alternate, S. J. High, cashier Peoples Bank & Trust Company, Tupelo.

NEW YORK STATE CONVENTION

The twenty-fourth annual convention of the New York State Bankers Association was held at Lake Placid June 21 and 22. The order of business of the first day included, in addition to the reports and addresses of the officers, an address by Lieut. Arthur Hunt Chute, of the Canadian Field Artillery, and addresses by John Bassett Moore, formerly Assistant Secretary of State, and Melvin A. Traylor, president Live Stock Exchange National Bank, Chicago, Ill. Mr. Moore spoke of the work of the Pan-American Financial Conference, which proposes the use of a common monetary unit, the "American franc," representing in value one-fifth of the United States dollar. Mr. Traylor discussed the importance of the farmers' help toward winning the war. At the second day's session the committees made their reports and addresses were delivered by Roy D. Chapin, president Hudson Motor Car Company, and the Hon. Frank White. Following this there was a discussion of general topics, the speakers being limited to five minutes. Entertainment included an informal "get together," music, boat ride, golf and tennis tournaments, Iroquois Indian council fire, dancing and automobile trip to Plattsburg Training Camp. At the banquet G. M. Dahl, vice-president Chase National Bank, New York; Thomas W. Lamont, of J. P. Morgan & Company, New York, and Dr. Willard Scott of Brookline, Mass., spoke.

Thomas B. Paton, General Counsel, American Bankers Association, was invited to tell the members of the State Banks Section something about the Hardwick amendment to the Federal Reserve Act. Mr. Paton spoke briefly of the work of the Committee of Twenty-five and expressed the opinion that the defeat of the amendment was attributable to the Federal Reserve Board and the President's belief that the amendment might hamper the passage of the other amendments.

The officers elected are: President, John H. Gregory, president Central Bank, Rochester; vice-president, Delmer Runkle, president Peoples National Bank, Hoosick Falls;

secretary, Edward J. Gallien, 128 Broadway, New York; treasurer, L. H. Reddish, cashier Owego National Bank, Owego.

The following were elected to represent the American Bankers Association: Vice-president for New York, E. A. Bennett, assistant cashier American Exchange National Bank, New York; members Executive Council, Benjamin E. Smythe, president Gramatan National Bank, Bronxville, and Jacob H. Herzog, vice-president National Commercial Bank, Albany; member Nominating Committee, E. L. Milmine, vice-president Mohawk National Bank, Schenectady; alternate, W. F. Polk, cashier National City Bank, Troy.

WASHINGTON BANKERS CONVENTION

The Washington Bankers Association held its annual meeting in Spokane June 14. The bankers were welcomed by Governor Lister and W. D. Vincent of the Spokane Clearing House Association. Among the speakers were: E. O. Holland, president State College, Pullman; John Clausen, vice-president Crocker National Bank, San Francisco, Cal.; J. P. Duke, cashier Security State Bank, Palouse, who spoke on taxation; W. H. Cochrane, member State Board of Control, Olympia, on state institutions; Alden Anderson, president Capital National Bank, Sacramento, Cal.; George T. Reid, of the Northern Pacific, Tacoma; W. G. Edens, secretary Central Trust Company, Chicago, Ill., on good roads, and D. G. O'Shea, president Federal Land Bank of Spokane, Spokane. J. W. Spangler, vice-president Seattle National Bank, Seattle, led a discussion on money conditions, and C. L. McKenzie, president Colfax National Bank, Colfax, discussed crops. D. C. Coates, former city commissioner, Spokane, spoke on "War and Labor."

The following elections were made: President, J. A. Swallow, vice-president National Bank of Commerce, Seattle; vice-president, O. M. Green, vice-president Exchange National Bank, Spokane; secretary (re-elected), W. H. Martin, cashier Pioneer National Bank, Ritzville; treasurer, Guy H. Pearl, cashier Citizens State Bank, Prosser.

The following were chosen to represent Washington in the American Bankers Association: Vice-president for Washington, Hugh Waddell, president First National Bank, Colville; member Executive Council, E. W. Purdy, cashier First National Bank, Bellingham; member Nominating Committee, John P. Duke, cashier Security State Bank, Palouse; alternate, N. B. Coffman, president, Coffman, Dobson & Company, Chehalis.

CONVENTION CALENDAR

July 10-11	North Dakota.....	Fargo
July 27-28	Montana.....	Great Falls
Sept. 6	Delaware.....	
Sept. 11-13	Farm Mortgage.....	Minneapolis, Minn.
Sept. 11-13	Ohio.....	Columbus
Sept. 12	American Institute of Banking.....	Chicago
Sept. 18-20	Illinois.....	Quincy
Sept. 20-21	West Virginia.....	White Sulphur Springs
Sept. 24-29	American Bankers Association,	
	Atlantic City, N. J.	
Oct. 1-3	Investment Bankers.....	Baltimore
Oct. 3-4	Kentucky.....	Louisville
Oct. 24-25	Indiana.....	Indianapolis
Nov. 9-10	Arizona.....	Tucson

TITLE CHANGES AMONG BANK OFFICERS

Following is a list of officers' title changes in institutions which are members of the American Bankers Association, reported to the JOURNAL-BULLETIN from May 26 to June 23, 1917, inclusive. Members will confer a favor by notifying this department immediately of any such changes. Publication will be made only on receipt of information direct from members:

CALIFORNIA

Modesto—George R. Stoddard, formerly cashier First National Bank, now vice-president; J. A. Dunn, formerly assistant cashier, succeeded Mr. Stoddard as cashier.

Morgan Hill—C. F. Drewry, formerly cashier First National Bank, Los Banos, now president Bank of Morgan Hill, succeeding J. A. Case, resigned.

COLORADO

Denver—Adolph Kuensemueller, formerly assistant secretary German-American Trust Company, now secretary and treasurer, succeeding William F. Dieter, resigned.

CONNECTICUT

Putnam—Lebbens E. Smith, formerly vice-president Putnam Savings Bank, now president, succeeding the late Chester E. Child.

ILLINOIS

Galena—T. J. Bermingham, formerly vice-president Merchants National Bank, now president, succeeding the late John Hellman.

Chicago—James M. Hurst, formerly vice-president National Bank of the Republic, now president Central Bond & Mortgage Company.

Red Bud—George G. Gucker, formerly assistant cashier Red Bud Bank, now cashier, succeeding Henry C. Wahlmann, resigned.

IOWA

Emmetsburg—E. B. Soper, Jr., formerly vice-president First National Bank, now president, succeeding E. B. Soper, Sr.

Hawarden—R. W. Snell, now vice-president First National Bank, succeeding S. Brunskill, resigned.

Stanton—Alfred Danbom, formerly assistant cashier Stanton State Bank, now cashier, succeeding V. J. Martin, resigned.

KANSAS

Kansas City—J. E. Longmoor, Jr., and George Young, assistant cashiers Drovers National Bank, now vice-presidents. S. E. Gaskill, formerly assistant cashier, now cashier.

KENTUCKY

Covington—Geo. E. Engle, formerly vice-president The German National Bank, now president, succeeding Hugh P. Colville, now vice-president The Citizens National Bank, Louisville, Ky.

LOUISIANA

New Orleans—G. Ad. Blaffer, formerly vice-president Commercial-Germania Trust & Savings Bank, now president Commercial National Bank, succeeding J. H. Fulton, resigned. W. J. Mitchell, formerly vice-president and cashier, now vice-president. W. Messersmith, formerly assistant cashier, now cashier, succeeding Mr. Mitchell.

MASSACHUSETTS

Leominster—Fred A. Young, formerly treasurer Fitchburg Bank & Trust Company, now president Leominster National Bank.

MICHIGAN

Detroit—I. G. McCreery, formerly cashier Highland Park State Bank, now vice-president and cashier.

MISSOURI

Kansas City—James T. Bradley, formerly cashier Southwest National Bank of Commerce, now vice-president and cashier.

Pierce City—W. R. Scheldrays, now president, and S. J. Donehill, vice-president of First National Bank.

St. Joseph—E. H. Zimmerman, formerly cashier Tootle-Lemon National Bank, now vice-president and cashier.

NEBRASKA

Omaha—Walter W. Head, formerly cashier German-American National Bank, St. Joseph, Mo., now vice-president and director Omaha National Bank.

NEW YORK

Brooklyn—G. Foster Smith, formerly vice-president Nassau National Bank, now president, succeeding D. V. B. Hegeman, resigned.

New York—W. K. Cleverly, formerly cashier Seaboard National Bank, now a vice-president. L. N. DeVausney, formerly assistant cashier, now a vice-president. H. W. Donovan, formerly assistant cashier, now cashier.

NORTH DAKOTA

Bowman—E. J. Buell, formerly vice-president First National Bank, Marmarth, now cashier First National Bank, Bowman.

PENNSYLVANIA

Waynesboro—Ezra Frick, formerly vice-president Citizens National Bank, now president, succeeding the late Daniel W. Hess.

SOUTH CAROLINA

Sumter—W. J. Crowson, Jr., formerly assistant cashier National Bank of Sumter, now cashier, succeeding Bernard Manning, resigned.

TEXAS

El Paso—Sig. N. Schwabe, formerly secretary Rio Grande Valley Bank & Trust Company, now a vice-president. H. V. Watson, formerly assistant cashier, now cashier.

WISCONSIN

Racine—David G. Janes, formerly vice-president First National Bank, now president, succeeding F. L. Mitchell, resigned.

MORTUARY RECORD OF ASSOCIATION MEMBERS

REPORTED FROM MAY 26 TO JUNE 23, 1917

- Belding, M. M., director Broadway Trust Company, New York, N. Y.
- Brennan, J. Smith, vice-president and director Equitable Guaranty & Trust Company, Wilmington, Del.
- Burgess, F. L., cashier Citizens State Bank, Minco, Okla.
- Burr, Samuel B., vice-president and director First National Bank, Bordentown, N. J.
- Chapin, H. C., president Citizens Bank, Union, Iowa.
- Child, Chester E., president Putnam Savings Bank, Putnam, Conn.
- Corwin, James Henry, director Suffolk County National Bank, Riverhead, N. Y.
- Crawford, Carroll Edgar, director First National Bank, Emlenton; director Oil City National Bank, Oil City, Pa.
- Duncan, William C., president Greenwich Bank and vice-president Colonial Bank, New York, N. Y.
- Gilliam, J. R., vice-president Lynchburg National Bank, Lynchburg; vice-president First National Bank, Danville; vice-pres. First National Bank, Clifton Forge, Va.
- Graham, John F., cash. First National Bank, Woodbury, N. J.
- Heimann, Gustav, assistant cashier Farmers & Merchants National Bank, Los Angeles, Cal.
- Irwin, Joseph, director Bank of Huntington, Huntington, N. Y.
- Johnson, E. C., cashier Scandinavian American Bank, Tacoma, Wash.
- Loynes, Richard, director Exchange National Bank of Long Beach, Calif.
- McBride, William C., director Union National Bank, Pittsburgh, Pa.; director Mercantile National Bank, and Mercantile Trust Company, St. Louis, Mo.
- McKean, James A., director First National Bank, Bowers-ton, Ohio.
- Meyer, Harry, vice-pres. Home National Bank, Baird, Tex.
- Park, David E., director Mellon National Bank, director Union Trust Company, and vice-president and director Union Savings Bank, Pittsburgh, Pa.
- Patrick, Marcus A., president First National Bank, Piedmont, W. Va.
- Pearson, Richard T., director Allegheny Trust Company, Pittsburgh, Pa.
- Sanford, Elmer H., assistant cashier Lincoln National Bank, Lincoln, Ill.
- Soutter, Charles B., vice-president and director Cedar Rapids Savings Bank, Cedar Rapids, Iowa.
- Stearns, Joseph G., vice-president Old Colony Trust Company, Boston, Mass.
- Sutton, W. G., president First National Bank, Bartlesville, and First National Bank, Cleveland, Okla.
- Tankersly, G. W., vice-president First National Bank, Mertzon, Tex.
- Thompson, J. W., president Pendleton Bank, Falmouth, Ky.
- Vollmer, John P., president and director First National Bank, Lewiston; vice-president and director First National Bank, Grangeville, Idaho; vice-president Bau-meister, Villmer & Scott Bank, Asotin, Wash.
- Wallis, Joseph A., vice-president Beverly Savings Bank, Beverly, Mass.
- Whitman, Charles W., vice-president Bank of Baraboo, Baraboo, Wis.
- Wight, John H., vice-president Fidelity & Deposit Company of Maryland, Baltimore, Md.
- Worden, F. H., cashier First National Bank, Browning, and cashier Farmers State Bank, Cut Bank, Mont.

REGISTRATION AT THE ASSOCIATION OFFICES

REPORTED FROM MAY 26 TO JUNE 23, 1917

- Blades, Arthur M., First National Bank, Boston, Mass.
- Blades, Mrs. Arthur M., Boston, Mass.
- Chamberlain, Lawrence, New York, N. Y.
- Chapman, Joseph, vice-president Northwestern National Bank, Minneapolis, Minn.
- Clearwater, Winfield, president First National Bank, Secaucus, N. J.
- Dimse, Henry, Irving National Bank, New York, N. Y.
- Downing, P. C., treasurer Fidelity Trust Company, Newark, N. J.
- Hardinge, Harold, president Patapsco National Bank, Ellicott City, Md.
- Harris, B. F., pres. First National Bank, Champaign, Ill.
- Hillis, Newell Dwight, pastor Plymouth Church, Brooklyn.
- Farley, John G., assistant cashier Traders National Bank, Birmingham, Ala.
- Goebel, P. W., president Commercial National Bank, Kansas City, Kan. President A. B. A.
- Hoge, James D., president Union Savings & Trust Company, Seattle, Wash.
- Hume, George E., cash. First National Bank, Oxnard, Cal.
- Hunting, H. H., vice-president Southold Savings Bank, Southold, N. Y.
- Meserve, A. J., vice-president Brookline Trust Company, Brookline, Mass.
- Nichols, Frederic C., treasurer Fitchburg Savings Bank, Fitchburg, Mass.
- Nienburg, A. H., Anglo-London-Paris National Bank, San Francisco, Cal.
- Phillips, Frank A., president Lambertville National Bank, Lambertville, N. J.
- Porter, George E., Ford & Porter, St. Joseph, Mo.
- Putnam, Charles C., assistant comptroller, Brooklyn Savings Bank, N. Y.
- Sawyer, L. M., Jr., bank examiner State of Kansas.
- Sensenich, Edgar H., cashier Northwestern National Bank, Portland, Ore.
- Short, F. T., Dongan Hills, N. Y.
- Ward, C. M. R., Hanover National Bank, New York, N. Y.
- Waters, A. E., Baltimore, Md.
- Wiggin, Charles B., Brookline, Mass.

BULLETIN

OF THE

AMERICAN INSTITUTE OF BANKING

INSTITUTE EXECUTIVE COUNCIL

1917—ROBERT H. BEAN (*ex-officio*), Casco Mercantile Trust Company, Portland, Me.; H. G. PROCTOR (*ex-officio*), Union Savings Bank & Trust Co., Huntington, W. Va.; FRANK C. BALL, Mississippi Valley Trust Company, St. Louis, Mo.; FRANK B. DEVEREUX, National Savings & Trust Company, Washington, D. C.; R. S. HECHT, Hibernia Bank & Trust Company, New Orleans, La.; JOHN W. RUBECAMP, Corn Exchange Bank, Chicago, Ill.
1918—E. G. McWILLIAM (*ex-officio*), Guaranty Trust Company, New York, N. Y.; S. D. BECKLEY, City National Bank, Dallas, Tex.; HARRY E. HERRANK, American Trust & Savings Bank, Springfield, Ohio; R. H. MACMICHAEL, Dexter Horton Trust & Savings Bank, Seattle, Wash.; R. A. NEWELL, First National Bank, San Francisco, Cal.
1919—GEO. F. KANE, Society for Savings, Hartford, Conn.; C. H. CHENEY, First National Bank, Kansas City, Mo.; WM. A. NICKERT, Eighth National Bank, Philadelphia, Pa.; JAMES RATTRAY, Guaranty Trust Company, New York, N. Y.

OFFICERS OF THE INSTITUTE

President, E. G. McWILLIAM, Guaranty Trust Company, New York, N. Y. Vice-President, H. G. PROCTOR, Union Savings Bank & Trust Company, Huntington, W. Va. Educational Director, GEORGE E. ALLEN, Five Nassau Street, New York City. Assistants to Educational Director, R. W. HILL and M. W. HARRISON, Five Nassau Street, New York City. Board of Regents—O. M. W. SPRAGUE, Chairman, Professor of Banking and Finance in Harvard University, Cambridge, Mass.; E. W. KEMMERER, Professor of Banking and Economics in Princeton University, Princeton, N. J.; HAROLD J. DREHER, National City Bank, New York City; C. W. ALLENDOERFER, First National Bank, Kansas City, Mo.; GEORGE E. ALLEN, Five Nassau Street, New York City.

INSTITUTE CONVENTION ON A WAR BASIS

The following preamble and resolution have been adopted unanimously by the Executive Council of the American Institute of Banking Section of the American Bankers Association:

WHEREAS, War conditions have placed upon the banks of the United States an extraordinary amount of work, the details of which must be performed largely by Chapter members of the American Institute of Banking; and

WHEREAS, The number of Institute Chapter members already in the service of the United States army and navy, and the greater number that doubtless will be called to such service in the near future, promise to create emergency conditions in the operation of most banks; and

WHEREAS, The Chapter members of the American Institute of Banking realize that their first duty is to their country and that in this crisis everything possible should be done which can in any

way assist in hastening and insuring that victory which must be ours; therefore be it

RESOLVED, By the Executive Council of the American Institute of Banking, in whom authority is vested by the Institute by-laws, (1) that the Fifteenth Annual Convention of the American Institute of Banking be and hereby is limited to a single business session of one day, (2) that for the sake of convenience such convention be held in Chicago, on September 12, 1917, (3) that the suggestion is made that each Chapter be represented by a single delegate, who would be authorized under the by-laws to cast the full vote of his Chapter in accordance with the basis of representation provided by the Institute by-laws.

The foregoing preamble and resolution were adopted by a mail vote in accordance with Section 9 of the Institute by-laws. The action of the Institute thus taken speaks for itself.

INSTITUTE INTERCHANGE

THE INSTITUTE AND THE WAR

Whether we all realize it or not, we are today at war with the greatest fighting machine the world has ever produced—a machine perfected by years of preparation and driven by a fanaticism which openly proclaims its intention to perpetrate the German Kultur upon every civilized nation of the world.

The time for discussing our entry into the war is past. We are in and it is now the plain duty of every citizen and of every organization to give everything which will contribute in any way toward hastening that victory which will leave no possible doubt but that imperialistic German ideals and institutions can never find a place in democratic America.

And so in this crisis the American Institute of Banking is trying to "do its bit."

It will be recalled that for the past two years we have had a Committee on Military Training and that very recently this committee, working under the direction of the Adjutant General's office in Washington, has obtained a registration of the bank men of this country to the end that our Government may utilize their services to the best advantage. Our offer to the President to assist in the distribution of the Liberty Loan and his response, which was published in last month's *JOURNAL-BULLETIN*, is also still fresh in the minds of our friends. It is therefore quite consistent with the spirit of the Institute that in this crisis we forego the pleasure and intellectual profit of our annual convention in order that those of us not called to the colors may assist in filling the places of those who are, thereby preventing friction in the machinery of commerce and at the same time setting an example in the matter of applying unnecessary expenditures to Government uses at this time.

Undoubtedly, therefore, the resolution adopted by our Executive Council and which appears on the previous page of the *JOURNAL-BULLETIN*, will awaken a responsive echo in the heart of each member of the Institute.

By September 12 many of our banks will find themselves severely handicapped in the matter of help, and already there are instances of bank employees offering to forego their vacations in order that the work of their banks may proceed without embarrassment.

We believe, therefore, that the action of the Institute in holding an annual meeting covering but one day and to be attended by but one delegate from each Chapter will be of material assistance to the banks at this time and will also have a distinct influence in the matter of enlistments and the disposal of future issues of war bonds, in addition to co-operating with the railroads as suggested by the War Board.

Had it been possible to legally preserve the organization of the Institute without an annual meeting of some sort, probably the Council would have recommended that this year such meeting be abandoned entirely.

Should the war continue throughout our next study season (and according to present indications it will), we will be obliged to meet very practical problems in the conduct of Chapter work, and it is well for us to have these problems in mind in arranging next season's courses.

Large inroads will be made into the membership of

every Chapter by the call to the colors; and for those who remain the all-absorbing topic will be war and war finance.

Our study courses must continue, but with the above in mind it will be wise for Chapters not to attempt too elaborate a program. Better have one well-sustained course than many poorly attended courses.

It would also seem especially desirable at this time that Chapter forums take as a topic for discussion those problems, national and local, which have been presented by the war and by including all bank officers in such discussions, whether they be graduates of the Institute or not, banking conditions in every community may be solidified.

Especially efforts should be made at this time to make Institute work available to women. Women are already being called into the banks in large numbers to fill the places of men called into the army and navy, and they are eager for the training the Institute gives. Philadelphia and Los Angeles Chapters are already welcoming women to their study courses and it is hoped many other Chapters will follow their example.

The Chicago convention in September will be unique in Institute history. It will be strictly a business meeting. Therefore it is hoped that each Chapter will send as its representative the very best man available, for much may depend upon his judgment.

May every one of our 22,000 members do his full duty, and do it now.

E. G. McWILLIAM.

THE LIBERTY LOAN

The sixteen years' existence of the American Institute of Banking was entirely and completely justified in the service rendered by the Chapters and members in the first Liberty Loan campaign. Much of the work done by Institute members during the past campaign has not yet been definitely brought to light, but their unselfish service is largely responsible for the raising of a considerable amount of the war loan.

This was particularly evidenced in the splendid work done in the cities visited by the Hillis-Chamberlain tour. When the final report was made of this tour, special mention was given of what the Chapter boys did. It was they who arranged the meetings and carried out, under the direction of the local clearing houses plans for proper publicity. It was they who were instrumental in securing the signatures on subscription blanks. Their activity did not constitute a test of their ability to take responsibility for succeeding loans, but it was merely a confirmation of previous record.

The Chapter Speakers' Bureaus were highly valuable to local Liberty Loan committees. Their knowledge and training were fully appreciated by those in charge of the loan in the various communities. In New York City, Philadelphia, Pittsburgh, Jacksonville and Kansas City; then in the Texas Chapters; in Denver; then Chapters on the Coast—all did exceedingly valuable work in the successful distribution of the loan. The Chapters in the Northwest like Minneapolis, Seattle, Spokane and Portland; in Detroit, Toledo, Dayton, Cincinnati, Buffalo and the

other New York and New England Chapters, saw real service. The work of the Chapters is to be commended. They are indeed a credit to the Institute.

In Lancaster Chapter, Lancaster, Pa., every man appointed himself a committee of one to go out and explain the mysteries of bond buying to the man in the street. Utica Chapter began its work by holding an open meeting for every bank man in the city, as a result of which volunteer speakers were secured and their services accepted by the Oneida-Herkimer County Liberty Loan Committee. During the campaign, the Chapter boys addressed sixty meetings on behalf of the Liberty Loan and their efforts had a great deal to do with securing a big oversubscription for the district. New Orleans co-operated royally with the local clearing house committee in arranging for the Hillis-Chamberlain tour. The Chapter also undertook an ambitious campaign in the motion-picture theaters, their speakers appearing in the city houses every night and in the suburban houses twice a week. The volunteer organization of the Chapter on this work consisted of forty men, which is pretty good for a membership of 250.

And so on down the line, every Chapter unit has its story to tell of work undertaken in a patriotic and energetic spirit and pushed to a successful conclusion. San Francisco Chapter, under the guidance of the incomparable John Clausen, handled the Hillis tour to perfection. The story of one is the story of all. On the roll of honor are Omaha Chapter, Portland, Ore., Seattle, Toledo, Minneapolis, Memphis, Louisville, Los Angeles, Kansas City, Mo., Des Moines, Cincinnati, Denver, Atlanta, and many others whose reports have not yet been received. One thing is very evident, and that is the unanimity with which every Chapter, and, in fact, every Institute member, rose to the emergency. Their reward was something more than merely the consciousness of duty well performed, for many a man discovered while addressing crowds of people on the Liberty Loan that he had persuasive powers and a voice to use them, and there is no doubt that the organization of effort practiced by each Chapter will recoil beneficially in every department of its ordinary activities.

To repeat, the Institute in this single instance has justified every dollar and every ounce of energy expended in its upbuilding. When the history of the Chapters' participation in the Liberty Loan of 1917 is fully written, as it will be some day, the American Institute of Banking will have a record of which it need only be said, "Well done!"

INSTITUTE POST-GRADUATE WORK

During the coming year the post-graduate work of the Institute, as well as all other Institute work, will inevitably be adapted to war conditions. Nevertheless, the study of economic problems upon which banking and other business are based should not be neglected. In the opinion of the Institute Board of Regents, the post-graduate work of the Institute during the coming year, outside of the consideration of current topics pertaining to war and war finance, should be centered upon the systematic study of the subject of economics. As a text-book for such study the Board of Regents has selected Ely and Wicker's "Elementary Principles of Economics." The general character of the book may be judged from the following table of contents:

BOOK I—INTRODUCTORY

Preliminary Remarks on the Nature of Economics—The Principal Divisions of Economics—Fundamental Institutions in the Existing Socio-economic Order.

BOOK II—ECONOMIC HISTORY

Introductory—Early Stages of Industrial Development—The Industrial Stage—The Industrial Stage in England—The Industrial Stage in the United States.

BOOK III—ECONOMIC THEORY

Part I—Consumption—Introductory: Utilities and Goods—The Law of Diminishing Utility—Demand—The Economy of Spending and Saving.

Part II—Production—Introductory—The Factors of Production—The Organization of Production.

Part III—Transfer of Goods (Exchange)—Introductory—Value—Monopolies and Monopoly Value—Money—Credit and Banking—International Trade.

Part IV—Distribution—Introductory—Rent—Wages and the Labor Problem—Interest—Profits—Socialism.

BOOK IV—PUBLIC FINANCE

Expenditure and Revenue—Revenues in the United States.

The book contains suitable questions for Chapter class quizzes and two appendices of practical utility. The first appendix gives a list of subjects for theses, discussions and debates. The second appendix outlines courses of collateral reading for the benefit of students who wish to study the subject of economics in a more extensive way than the text-book itself provides.

CHAPTER FORUMS AND THE WAR

"War is now the chief business of the United States. When war is the great business of a nation, all business not essential to success in war must be eliminated or diverted so that it becomes essential to war."

This was the keynote of the plan for the flotation of the Liberty Loan originated by the General Committee of the American Bankers Association, and it, therefore, behooves the American Institute of Banking—the educational section of that Association—to consider how its work can be dedicated to national service.

In the final analysis, the successful termination of any war is dependent on the bankers' ability to organize the financial machinery of a nation so that funds can be made available for Government use, and the American Institute of Banking, by developing trained bankers through its educational work, has already done much toward that end. With its thousands of graduates who have acquired a knowledge of the fundamental principles of American banking, there is a mighty force available for service at this time, but to render it of value there must be co-ordination, which could be obtained if each Chapter established a forum for the discussion of current financial problems and the interchange of ideas thereon.

The Chapter forum was originally provided for in the system of post-graduate study adopted at the Salt Lake City Convention of the American Institute of Banking in 1912, the object being to meet the demand of graduates for

more advanced education; and by giving opportunities for research in banking and finance, and kindred subjects, to develop scientifically and professionally trained bankers. In most cases where Chapter forums have been established they have been more of the nature of advanced study classes under the direction of instructors, and as much benefit has accrued from them, arrangements have now been made for a specific course of post-graduate study, which will, however, be quite separate and distinct from the forum.

"A forum is a place for the discussion of public affairs," and in view of the financial problems that will arise in connection with the war, the duty of establishing a forum in connection with each Chapter seems clear. The forum membership should consist of graduates, bank officers and senior bank men whose practical experience would be valuable in discussion, and its meetings should be under the general direction of a Forum Committee. Meetings should be held at least twice a month, and they should be in charge of either a permanent chairman or a chairman appointed at each meeting, whose duties would be those usually undertaken by a presiding officer. One advantage of appointing a chairman at each meeting is the opportunity given to members for obtaining experience in conducting a meeting.

At the meetings of the forum a paper on the prescribed topic should be read by a member previously designated for that purpose, followed by a general discussion either of the nature of a debate or in the form of question and answer, but debate is preferable unless the speaker is an authority on the subject; as otherwise it would be unlikely that he would be able to answer all the questions that would be asked. If questions are asked by members, they should be repeated by the chairman, so that there may be no misunderstanding as to what is being discussed.

Meetings should be conducted in accordance with parliamentary procedure, and not informally, for the experience in rising to address a meeting is essential to the development of speakers and that should be one, and not the least, of the purposes of the forum. The demand for speakers in connection with the flotation of the Liberty Loan was much greater than the supply, and as much educational work must yet be done to insure the success of future issues, the development of trained speakers is essential. Knowledge is a pre-requisite for any speaker, and, therefore, the financial problems of the war should be the theme of this year's discussions at forum meetings, but with ever-changing conditions, topics should not be selected very far in advance.

To discuss these problems to advantage it is necessary to understand the financial system and monetary conditions in the United States, and to study the methods that have been employed by our Allies in their financing, so that their mistakes can be avoided by us. War conditions inevitably lead to credit and currency inflation in some degree, and a study of the causes and effects of inflations in previous wars would be advantageous. The War Loan Committees of the American Bankers Association have gathered considerable data on these subjects, which will be added to from time to time, and will be available for the use of Chapters.

The establishment of an active forum in each Chapter will thus give an opportunity for national service without any departure from the expressed purpose of the Institute.

JAMES RATTRAY.

FIVE PRINCIPLES OF SUCCESS

Lewis E. Haas, in a recent address before San Francisco Chapter of the American Institute of Banking, took as a text the five essentials of success specified by Professor Albion W. Small: (1) Health, (2) Wealth, (3) Sociability, (4) Knowledge, (5) Rightness.

"Health," said Mr. Haas, "is the one bedrock foundation of all material betterment. If we are ever to aspire to a directorship, to a presidency of a concern, to an exalted position in the state or nation we must have an abiding, unflinching store of reserve strength and virility. How many instances do we ourselves know of men who, when the supreme test came upon their powers, failed miserably because they had exhausted their store of virility, their stock of reserve health, and couldn't quite meet the demand on their energies occasioned by the driving necessities of the big job.

"Passing on to the second classification of human interest, one finds himself confronting one of the most potent assets to be found in the qualities which go to bring about success. The classification of wealth is unquestionably one of the strongest determining factors leading to the paths of success. By wealth the meaning is not necessarily conveyed of huge sums of money. Rather is it the expression, to a young man, of some tangible form of savings, whether it be money, real estate or any other form of negotiable possessions. It is the great and powerful stabilizer which gives the possessor the splendid feeling of assurance in himself. Without a bank account we lag fearfully far behind he who has expended his earnings in such a fashion as to leave a surplus. The peace of mind, the contentment, the indispensable feeling of self-assurance is sadly lacking if, on our struggle to the front, we neglect this phase of our economic betterment.

"Thirdly, in the further analyzing of Professor Small's human interest principles, we encounter what some of our greatest men lay the most stress on—that of sociability or personality. Personality seems to dominate the success of all big men. He who has cultivated his endowment of pleasing but forceful self has taken a long stride toward the goal of achievement. What a pleasure it is to come into contact with a man who has so molded his faculties into an harmonious ensemble as to impress us instantly with his worth, his likeableness, his appreciation of the good qualities we possess.

"Now we approach a quality so vital, so imperatively essential, and one which is so great a principle in our organization that too much emphasis cannot be laid upon it. I have already mentioned it. It is the classification of knowledge. Knowledge is at the base of all things. Without it we would still be primitive, would still be prehistoric, would still be in the state of civilization in which the cave-man existed. It is the potent acquisition which raises one man above his fellow. It is the asset which is going to determine whether or not we achieve to what we aspire.

"Knowledge is what will determine whether, all things being equal, we are going to take our place in the business world as a figurehead or as a dominant force.

"The last of the five-fold classifications is that of rightness—not righteousness—simply rightness. By rightness is meant whether we are 'right' with ourselves. Whether we feel we are playing the game in a man's way, or whether our way is the way of the sniveling coward who shambles through life a parasite, a leach, clinging to

the skirts of others; content to follow the hewer of trails, incompetent to meet the emergencies which stamp a man as a thinker and a doer rather than a drone existing on the efforts of others. Rightness would seem to be the broad underlying principle which molds our characters, which transforms us into men of power and ability, which gives us the firm foundation of stability, which makes it possible to look every man in the eye unflinchingly and fear no one, not even ourselves. What a boon to ourselves if we are 'right' with our inner self. Without it, the road seems blocked for progress, with it we travel along the pleasant highway of success, secure in reaching the ultimate goal."

ETHICS OF A YOUNG BANKER

Andrew Benton, of the firm of Marwick, Mitchell, Peat & Company, recently offered a prize of \$15 to members of New York Chapter for the best article on "Bank Ethics and Principles for Young Men." An article by one of the younger bankers containing inspirational advice perhaps would have greater effect than coming from the more experienced bankers. So Mr. Benton thought. The prize went to an Institute graduate, Edward Vanderpool, of the National Bank of Commerce, New York. The successful essay was in part as follows:

"Not all men are bankers (by that term is not meant merely 'in the banking business') any more than all men are double-jointed contortionists, or watchmakers, and for the same reason—they are not adapted to it. But when we hear some one continue to cry aloud that there is no chance to get ahead in banking, we soon become convinced that there is no opportunity to progress in this line—for him. Nor is it probable that such a man will be a conspicuous success in any other place, unless it be some charitable organization where he will receive much and have slight occasion to exercise the brain and brawn with which he has been endowed. The sooner such barnacles are detached from any institution, the better for the entire banking fraternity. The very highest standard of honor is looked for among bank men as a matter of course; yet notable is the man who maintains it. We all view with feelings ranging from pity to disgust, the despicable, hypocritical, or, perhaps, well intended but misguided talk and conduct of the prating moralizer, the timid softy, the mushy goody-goody and the religious fanatic. But whatever our opinions or doctrines may be, we cannot help feeling an admiration, whether silent or ardent, for the man who dares to stand on just principles, which he knows are right, for, after all, we like nothing better than a manly man. His standard of honor will not permit him to sell his soul to his boss for money or promotion, nor to his fellow workers for popularity, but his solicitude for the interests of both will surely result in advancement to a larger sphere of usefulness in all directions. If this does not materialize within a reasonable time and a dispassionate review of his conduct shows the fault is not there, change of scenery with more responsive environments would seem timely.

"More often what is mistaken for the chafing of unduly restrained ambition is impatience for unearned advancement. Many a man who has made great spurts because of *ability*, has never attained permanent success because he lacked *reliability*. Some are fine for a battle,

but useless for a campaign. The right man will force recognition before long because changes occur rapidly these days. But how? Not by knifing every one else, and stepping up on the backs of his fellows, bringing, through his rise, rancor and unrest throughout the organization. If he is a real man he will not be sullen or discouraged, but through sheer force of character will climb steadily because of the intrinsic value of his services, which includes more than the number of checks he runs on the adding machine and the quantity and quality of figures he writes. In all his business relations he will endeavor to act from the combined viewpoint of the stockholder, president, clerk, office boy, and last, but certainly not least, the customer, conserving the best interests of all. The trailer—one of the crowd—follows the wishes of those he serves; the leader—the exceptional man—anticipates their requirements. Habitual provision for the wants of superiors will naturally extend to the needs of clients, and this far-sightedness eventually brings gratifying results. We are constantly warned, 'Don't watch the clock.' How obsolete! The man that does watch the clock will see that he is at his desk on time in the morning and after lunch; that balances, statements, reports, etc., are completed at the proper time; that work is promptly received, handled, passed to the next man or department, with nothing held up and everything running smoothly. At the completion of a full day's work of concentrated effort, why should he not leave early enough to enjoy needed relaxation? Time not devoted to study should be given to recreation, not dissipation, in order that with proper food and rest he may resume his duties in the cheerful, enthusiastic manner which obtains and retains friends for himself and his bank, crowning his work with success worth while."

ENLISTING SCHOOL CHILDREN

In Minneapolis during the last Liberty Loan campaign, the school children took quite an interest. Regardless of the social status of their parents, they toiled and earned pennies. They brought the money to the school, and when put together with thousands of other pennies, nickels and dimes, it amounted to the sum of \$117,000. The school authorities bought Liberty bonds with this money; that was the object the children had in mind. Imagine, if you please, the proud parents and what their convictions were when they saw the sacrifices on the part of their children. It had its effect, for through it Minneapolis raised much more than its quota, and the effect was instantaneous upon the minds of the parents—and they economized. There is going to be a monument some day in Minneapolis to the heroes and martyrs of this war built by the school children of that great city with what they earned and invested in Liberty bonds.

THRIFT AND WAR LOANS

Chapter members of the Institute are peculiarly well qualified to emphasize the fact that future bond issues to finance the war should be paid for out of future savings of the people rather than out of savings already accumulated. The greatest economy will undoubtedly come in this country through the exigencies of war. It will be forced upon us.

INSTITUTE CHAPTERGRAMS

The American Institute of Banking is on a war basis. The Institute did its part in placing the recent Liberty Loan of two billion dollars. Other loans are coming. The Institute contains some of the ablest and most aggressive young men of the country. They are so thoroughly accustomed to working with banks and carrying out banker's instructions that they form an ideal agency for rendering the most assistance in helping to see that the work of local war loan committees is perfectly carried out. The Institute will furnish active and willing workers to assist the war loan committees. The Institute will furnish secretaries for such committees. The Institute can be relied on to furnish speakers of force and ability as well as able writers to explain to the public what bonds are and the special features of government bonds. In speaking to the public Institute men can combine patriotic sentiment and financial facts in persuasive style, and in promoting future war loans the Institute will be the most potent factor, considering its size, in all America.

PITTSBURGH CHAPTER

During the past month the main activity in Pittsburgh Chapter has been the Liberty Loan. The Pittsburgh clearing house committee issued a call for speakers. Our Chapter almost immediately furnished thirty men who were sent out to the shops, stores and theaters to give five-minute talks. Our boys delivered about 250 talks and approximately 300,000 people were reached this way. We are all proud of the way Pittsburgh put it over—they having subscribed to \$83,000,000, which was \$24,000,000 over their apportioned amount. Our examinations were held around the first of June, taking the "Commercial Law" examination, practical banking, accounting and corporation finance. This has been quite a busy season for Pittsburgh Chapter. Gee! we are sorry that it was necessary to call off the convention. But, then, we had such a grand time last year that we can wait another year. H. E. REED.

TRAINING

Mark Twain said: "Training is everything. The peach was once a bitter almond; the cauliflower is nothing but a cabbage with a college education."

NEW ORLEANS CHAPTER

The Chapter has just completed one of its most successful educational seasons. The "Banks and Banking" class had an enrollment of 100; the Spanish, public speaking and elementary banking classes were well attended. Five active Institute members have been honored with official promotions by the local banks. F. L. Ramos was appointed assistant cashier by the Canal Bank & Trust Company. Richard G. Fitzgerald, P. H. Wilkinson, L. V. De Gruy and James H. Kepper were appointed auditor, bond officer, trust officer and assistant cashier, respectively, by the Hibernia Bank & Trust Company. These gentlemen have been closely identified with Institute work, and their promotion was received with much gratification by the local banking fraternity. Messrs. Ramos and Fitz-

gerald are Institute graduates. We have tried to do our "bit" in the Liberty Loan campaign by supplying speakers to eighty motion-picture theaters, explaining the issue and its importance. The large theaters in the commercial district gave their co-operation by allowing a speaker five minutes to each audience, each night for fifteen consecutive nights. Our speakers also addressed women's clubs, fraternal organizations and the employees of various corporations. We felt that this campaign was a success when the final figures were announced, showing New Orleans had oversubscribed her allotment by 50 per cent. W. L. Ward, for sixteen years associated with the Homer National Bank, Homer, La., and later with the state banking department, has now accepted a position of assistant cashier of the Interstate Trust & Banking Company, and the day he entered the bank turned over his application to the head consul. KENNER S. BAETJER.

ABILITY

Mediocre men are plentiful, but remember that able men are few and are therefore prized when they are found.

LOUISVILLE CHAPTER

Louisville Chapter concluded the year 1916-1917 on May 24 with the examination in "Banks and Banking." Only eight men felt confident enough of their knowledge of the course to try the examination. The annual election of officers resulted as follows: Stanley P. McGee, Fidelity & Columbia Trust Co., president; John H. Mitchell, American-Southern National Bank, vice-president; Thomas Bullock, of the Citizens National Bank, secretary, and L. F. Bosler, Fidelity & Columbia Trust Company, treasurer. Otto C. Ruth, Jr., American-Southern National Bank, was made chairman of the membership and publicity committee, and Edgar B. Hawes, Louisville Trust Company, was made chairman of the entertainment committee. The Chapter also appointed H. L. Earley, American-Southern National Bank; R. A. Eberhard and Stanley P. McGee, both of the Fidelity & Columbia Trust Company, delegates, and Otto C. Ruth, Jr., American-Southern National Bank, alternate, to the annual convention in Denver on September 12. The following men have shown their patriotism by enlisting in the army: Edgar Puthoff, aviation, and Kenneth Kennedy, state guard, from the Union National Bank; R. R. Boswell, marine corps, and C. B. Stansbury, officers' reserve, from the Louisville Trust Company; Coleman S. Simpson, regulars, Walter Borgerding, officers' reserve, and Henry Board, regulars, from the National Bank of Kentucky; Logan Burnham, state guard, John Lindsey, state guard, Dulaney Logan, officers' reserve, and P. M. Terry, officers' reserve, from the American-Southern National Bank; Richard Montfort, state guard, Henry V. Bell and Noa S. Gayle, officers' reserve, from the Fidelity & Columbia Trust Co.; F. G. Clerget, officers' reserve, from the German Bank; James Irwin, state guard, from the First National Bank; Jouett Boone, officers' reserve, Sam Messex, hospital corps, and John Gratz, J. G. Kirby and Edwin T. Meriwether, state guard, from the Citizens National Bank. V. F. KIMBEL.

SUCCESS

You will naturally be a success if you are ready to accept the added responsibilities when there is an opportunity for you to assume them.

MACON CHAPTER

As a result of the final examination recently held in review of the text-books on "Banks and Banking" and "Loans and Investments," we have added ten names to the number of our graduates. At our annual banquet held May 29 at Hotel Lanier we listened to some very interesting and instructive addresses by Francis E. Williams, vice-president Fourth National Bank, "Things that Make for Success"; James K. Hogan, assistant cashier Fourth National Bank, "The Growing Interest in the A. I. B."; George B. Clark, vice-president Citizens and Southern Bank, "Duties of a Bank Clerk to His Institution"; Robert L. Anderson of the law firm of Ryals & Anderson, "Character Building." Arthur Branan, chairman of our executive committee, reviewed the work of the year. L. P. Hillyer, president Bibb National Bank, acted as toastmaster. The annual election resulted as follows: President, Paul E. Davis, Fourth National Bank; vice-president, S. H. Buxton, Citizens and Southern Bank; secretary, Vance King, Bibb National Bank; treasurer, R. F. Fincher, Macon National Bank. P. E. DAVIS.

ORIGINALITY

Find something new and useful in your business, something no one has ever thought of. Apply the power of all your energies to it and soon your services will be in demand from the four corners of the earth.

RECIPE FOR SUCCESS

Keep your head cool—your feet warm—your mind busy. Don't worry over trifles. Plan your work ahead, then stick to it—rain or shine. Don't waste sympathy on yourself. If you are a gem some one will find you. Don't whine—tell people you are a failure and they will believe you. Talk and act like a winner, and in time you will become one.—*The Three Partners.*

KANSAS CITY CHAPTER

Kansas City Chapter is busy at this time getting organized for next year's work. President W. H. Potts has appointed all committees and expects to have them well oiled and in good running condition so that no time will be lost in starting work promptly next year. The work of editing the Chapter paper has been taken out of the hands of the press committee and will hereafter be handled by a separate editorial department consisting of Wm. C. Phares, New England National Bank, as editor and Lloyd A. McMillan, First National Bank, as associate. This arrangement will give the secretary (chairman of press committee) time to attend to the rapidly increasing duties of his office. Chapter members have been assisting in the local Liberty Loan campaign by soliciting subscriptions at motion-picture theaters and other public gatherings and arranging, in some cases, for speakers to address the

meetings. Public affairs work is being organized by a committee appointed for that purpose. A number of speakers have been appointed who are preparing themselves along special lines. The National City Bank (now organizing) has chosen a loyal Chapter man for assistant cashier in the person of Albert H. Smith, formerly discount teller at the Southwest National Bank of Commerce.

FRANK W. WILSON.

OAKLAND CHAPTER

Activities connected with the Liberty Loan have occupied the attention of Oakland Chapter to the exclusion of all else for the past month. Working in conjunction with the Liberty Loan Committee of Alameda County, the Chapter has added its mite to the tremendous total of earnest and unselfish efforts which the floating of this loan called forth all over the nation. W. F. Morrish, one of our past presidents, acted as chairman of the committee in Berkeley, and demonstrated once more the rare talent and ability with which he is blessed. Eight members were detailed as speakers to address various meetings and help boost the sale of bonds, and fifty members volunteered to act as bond salesmen and interviewed thousands of people in theaters, business houses, on ferryboats and elsewhere. On the whole, Oakland Chapter may well feel proud that it had a part in the success of the Liberty Loan of 1917.

W. R. WARD.

CLIMB

Go on climbing where real knowledge counts. It alone is genuine, for no matter how much money you may have some fool could inherit or marry more, but as knowledge must be acquired through earnest, persistent, cheerful effort, there is not much competition.

SALT LAKE CHAPTER

The annual election of officers and delegates of our Chapter was held on May 10. The retiring president, John W. Boud, extended his thanks and appreciation to the members and officers for their loyal support during the season. The following officers were elected: President, Otto B. Hoebel, Bankers Trust Company; vice-president, Charles Gardner, Deseret National Bank; secretary, G. M. Southwick, National Bank of the Republic; treasurer, E. W. Evans, Salt Lake Security and Trust Company.

LUTZEN BUMA.

HEART SERVICE

Brain service can be bought. Lip service can be hired. Physical service can be contracted for. But heart service is the kind you get when you pay in the coin of appreciation, kindness and consideration.

TACOMA CHAPTER

Twenty of our members were on hand at the appointed time to take the final examination in review of the text-books on "Banks and Banking" and "Loans and Investments." This number, in normal times, would doubtless have been doubled as many of our members were compelled to drop out on account of their enlisting in the military service and consequently were compelled to attend drill on

our study night. The National Bank of Tacoma offered a first prize of \$15 and a second of \$10 to the two members of their force making the best showing in the examination. Our Chapter is represented in many branches of the service. On registration day, June 5, many of our members donated their services as registration clerks, the governor having declared a holiday for the purpose. Thus far no slackers have been reported. With the present plans for the mammoth army post at American Lake—to house 60,000 to 70,000 men by September 1, 1917—being rushed to completion, and the new shipbuilding plants and their allied industries getting in readiness to begin the building of commerce carriers, Tacoma looks forward to a wonderful growth in the banking field within a very short time. Our annual election was held May 22. Harold J. Dille, collection teller of the National Bank of Tacoma, who has labored faithfully during the past year as chairman of the educational committee, was the choice for president; George Donald, Jr., was elected vice-president, and J. L. Hamilton, secretary; both of the Tacoma Savings Bank & Trust Company. A. C. Carlson, of the Bank of California, was elected treasurer. H. V. Alward, vice-president and cashier of the Fidelity Trust Company, to whom is due much of our Chapter's success this year, was unanimously chosen as one of the two-year members of the executive committee, the other two-year member to be the man ranking highest in the examination. N. A. Donelson, of the Scandinavian American Bank, and Carl E. Lindquist, assistant cashier of the Puget Sound Bank & Trust Company, were elected members of the executive committee to serve one year. The plans for next year are not as yet fully developed, but we will doubtless continue along the same lines, putting the emphasis on the educational side, with one evening each month for lectures and special features.

J. L. HAMILTON.

DUCKERS

The student who ducks examinations will be found inclined to duck everything else.

BALTIMORE CHAPTER

Baltimore Chapter has completed a most successful year and we all take off our hats to our retiring president, Hilary W. Lucke, for the success that his sagacity and personality achieved. Tuesday, June 12, we had our election of officers for the ensuing year. Oliver C. White, Drivers & Mechanics National Bank, was elected president; James W. McElroy, Eutaw Savings Bank, vice-president; James H. Dorsey, Fidelity & Deposit Co., secretary; George E. McDonald, Western National Bank, treasurer. All of these gentlemen have been active workers in the Chapter for many years and their promotion is very well merited. We therefore feel that there will be no lack of interest for the year ahead of us. We have twenty-four members to report who have successfully completed this year's course in "Banks and Banking" and who have passed the final examination. This is a good percentage of those taking the examination, which was a stiff one and no perfunctory affair by any means. To all appearances the military draft is going to hit us pretty hard. Over half of our membership has registered for service in the national army. We subscribed to the Liberty Loan to the extent of all the money we could spare and we wish

we had some more to spend in that way. \$250 isn't so much, but then every little bit helps. If other Chapters have done likewise it speaks well for the Institute.

GEORGE G. REQUARD.

ACHIEVEMENT

Whatever I have tried to do in life, I have tried with all my heart to do well; whatever I have devoted myself to, I have devoted myself to completely; in great aims and in small, I have always been thoroughly in earnest.—*Charles Dickens.*

MINNEAPOLIS CHAPTER

Minneapolis Chapter closed its activities for the present season with the annual banquet, which was held on Saturday, May 26, at the Minneapolis Athletic Club. A. V. Smith, our president, was toastmaster and reviewed the work of the past season, laying particular emphasis on the splendid showing made educationally. Captain R. I. Rees, Third U. S. Infantry, made a stirring and very fitting address, choosing as his topic, "A Man's Obligation to His Country." Our principal speaker of the evening was Geo. M. Reynolds, president of the Continental and Commercial National Bank of Chicago. From the moment Mr. Reynolds was introduced he held the undivided attention of every one present. Selecting as his topic, "Our Existing Economic Problems," he explained just how and where we stand in the great war and the obstacles which we will have to overcome in order to insure a lasting peace for all the world. The Chapter is truly thankful, to say the least, for the privilege of hearing and meeting a man like Mr. Reynolds. The banquet closed with the singing of "America" and a toast to the boys who have already enlisted and left us. The annual election was held on May 8 at the Union State Bank and resulted as follows: President, Clarence R. Chaney, Northwestern National Bank; vice-president, Cecil L. Keith, Scandinavian American National Bank; recording secretary, Edward A. Olson, Scandinavian American National Bank; corresponding secretary, Earl H. Haverstock, Minnesota Loan and Trust Company; treasurer, Robert S. Stebbins, Union State Bank. A. V. Smith and L. V. Rose were chosen as executive committee members for a term of three years. These men are all "old timers" in the Chapter and everything points to a very successful new year.

ARTHUR D. HAGG.

MEN AND EMERGENCY

It is by presence of mind in untried emergencies that the native metal of a man is tested.—*Lowell.*

SAN FRANCISCO CHAPTER

With the most successful year ever in the history of San Francisco Chapter now behind us, the officials and members are devoting their energies toward the formulating of such plans for the ensuing year which should prove even more productive than the methods used during

the past twelve months. The annual election held on May 29, at which time the new board of governors was elected, put into office a group of our strongest men, and the new officers for 1917-1918, who were elected by the board of governors on June 19, were so well chosen that our entire 1,175 members feel strongly confident that our hopes for the ensuing year will probably be even surpassed by this strong group of our most representative members. The following men will serve as officers and members of the board of governors for the next year: President, Victor Klinker, credit manager Anglo & London Paris National Bank; first vice-president, Paul Sinsheimer, assistant to the president Union Trust Co.; second vice-president, E. V. Krick, Savings Union Bank & Trust Co.; third vice-president, A. J. Gock, assistant cashier Bank of Italy; treasurer, Howard Moore, auditor First National Bank. Our educational program will be even more extensive next year than in any past year. More classes will be probably held and especially energetic methods will be devised to stimulate the enrollment for the Institute course. There is under advisement the launching of a monster membership campaign, which will bring into our membership the available 150 or so men who as yet are not Institute members. San Francisco Chapter has long cherished the hope that it will become second or third in point of membership and the new campaign is believed to be sufficient to enable us to realize our ambitions. On the night of July 14 we are holding a goodfellowship night, at which time the new official family will be welcomed by the outgoing officers. Another feature of the evening will be the presentation of Institute certificates to the forty-four honor men who completed the Institute course this past year. It is planned on this night to have a large gathering of officials present, so that they may realize the hard work attendant to securing a certificate as well as give recognition to those ambitious ones who have satisfactorily pursued their studies. San Francisco Chapter is beginning to feel the effect of the war situation in that about twenty of our members have already joined the ranks and others are planning to leave in the near future. However, this problem is being taken up and handled and we are bending every effort to maintain our membership at its present height, or what is even better, to increase it, even though the war will take many of our fellows. LEWIS E. HAAS.

BOOKS AND BRAINS

Use books, but use brains more. A plagiarist reads books; a genius reads brains. A professor in a backwoods college boasts of having read 15,500 books. Abraham Lincoln read, or, rather, studied and digested about as many as there are fingers on one hand. The result speaks for itself.

LOS ANGELES CHAPTER

Los Angeles Chapter closed a most successful season with a corking good banquet Thursday evening, May 24. More than 400 members were present, as well as many guests, among whom were some of the most prominent bankers in this section of the country. Two ex-presidents of the Chapter were there, as was also the President of the Institute, and the Chapter president, of course. The

menu was attractively gotten up in check-book form, substituting the words "Serve to the order of" instead of "Pay to the order of." Henry S. McKee, vice-president Merchants National Bank, acted as toastmaster. Past President W. D. Otis, assistant secretary Security Trust & Savings Bank, was the first speaker and was followed by President-elect Fred W. Healy, Guaranty Trust & Savings Bank. W. H. Thomson, our former president, now cashier Phoenix National Bank, Phoenix, Ariz., made a short address. E. G. McWilliam, our honored guest, spoke upon Institute topics and patriotism. Former State Senator L. H. Roseberry, trust attorney Security Trust & Savings Bank, explained and commented upon "Newly Enacted Banking Laws." The Chapter's educational director, Claire S. Tappan, spoke upon "The Educational Value of the Institute" and Hon. John S. Chambers, controller of the State of California, spoke upon "The Financial Side of the Government." An orchestra composed of Chapter members from the Union National Bank of Pasadena, furnished excellent music during the evening. After the banquet a motion-picture film entitled "A Modern Black Art" was exhibited to those present, at which time P. W. Mohan, manager Los Angeles Office, Wm. J. Burns Detective Agency, made a short talk on "Forgeries." Announcement was made at the banquet that 214 members passed the "Banks and Banking" examinations and that more than 100 members were therefore entitled to certificates. The officers of the Chapter for the season of 1917-18 are as follows: President, Fred W. Healy, Guaranty Trust & Savings Bank; vice-president, S. W. Murray, National Bank of California; secretary and treasurer, H. L. Thomas, Farmers & Merchants National Bank.

W. D. OTIS.

TIMELY PHILOSOPHY

It is easy enough, after the ramparts are carried, to find men to plant the flag on the highest tower.—*Macaulay*.

COLUMBIA CHAPTER

The result of the final examination in review of the text-books on "Commercial Law" and "Negotiable Instruments" is awaited with much interest and anxiety. We hope to add about ten to our list of graduates. At the annual meeting held June 19 the following officers were elected: President, James Q. Davis, Palmetto National Bank; vice-president, A. G. Ropp, Peoples National Bank; secretary, O. P. Loyal, Palmetto National Bank; treasurer, William M. Gibbs, Jr., Palmetto National Bank.

OLIVER P. LOYAL.

ELBERT HUBBARD ON LOYALTY

If you work for a man, in heaven's name work for him. Speak well of him, stand by him and stand by the institution he represents. If put to a pinch, an ounce of loyalty is worth a pound of cleverness. If you must vilify, condemn and eternally disparage, why, resign your position, and when you are outside damn to your heart's content. But as long as you are part of the institution, do not condemn it. If you do you are loosening the tendrils that hold you to the institution, and the first high wind that comes along you will be uprooted and blown away, and probably you will never know why.

LANCASTER CHAPTER

While we are the youngest Chapter in the Institute, we have 102 members and they are coming out in large numbers to each meeting. C. F. Summy, Lancaster Trust Company, has been selected as the head of the educational committee and arrangements have already been made to start the study of "Commercial Law" next October. We have been working on the Liberty Loan with some success.

WARREN S. REHM.

ADVICE

Many receive advice, but only the wise profit by it.—
Publius Syrus.

BIRMINGHAM CHAPTER

The study classes which have been conducted in "Commercial Law" and "Negotiable Instruments" have about finished their work for the season and several of our members will take the final examination in Part II of the Institute study course. At our last meeting it was voted that the Chapter buy a \$100 Liberty Loan bond. The following officers have been elected for the ensuing year: President, W. W. Clayton, Birmingham Trust and Savings Bank; vice-president, J. A. Holcomb, First National Bank; secretary, J. E. Carter, Birmingham Trust and Savings Bank; treasurer, R. E. Bentley, First National Bank.

W. W. CLAYTON.

CONCENTRATION

The man who seeks one thing in life, and but one,
May hope to achieve it before life be done;
But he who seeks all things, wherever he goes,
Only reaps from the hopes which around him he sows
A harvest of barren regrets. —*Owen Meredith.*

VALUE OF VACATION

The vacation does little good to him who carries his business on his brain.—*W. C. Prime.*

SACRAMENTO CHAPTER

Study classes this year have been conducted in "Banks and Banking" and "Loans and Investments." At a special meeting held May 10 the following officers were elected for the coming year: President, A. C. Smith, California National Bank; vice-president, W. W. Ketcham, Sacramento Valley Bank and Trust Company; secretary-treasurer, Le Roy Peters, Farmers and Mechanics Savings Bank.

L. H. STREET.

PRESIDENT WILSON ON EDUCATION

In response to inquiries from several colleges, President Wilson has advised that the usual standard of educational work be maintained during the war. The Institute intended to pursue such policy in any event, but nevertheless welcomes President Wilson's advice.

TOLEDO CHAPTER

At the last meeting of the Chapter we had the pleasure of listening to an address on "The Nation's

Finances as Affected by the Present War," by Henry Parker Willis, secretary of the Federal Reserve Board. About 200 local bankers were present. The regular annual election of officers, held May 24, resulted as follows: President, E. L. Lingafelter, Spitzer-Rorick Trust and Savings Bank; vice-president, C. J. Eisemann, Commercial Savings Bank and Trust Company; secretary, Martin Arft, First National Bank; treasurer, E. J. Welling, Security Savings Bank and Trust Company.

CHARLES H. VISCHER.

WAR COMMITTEE WANTED

EDITOR JOURNAL-BULLETIN: Now that the Institute is on a war basis, would it not be a good idea to have a strong war committee in charge of such matters?

J. P. HOLMES.

CHARLESTON CHAPTER

Our educational work for the year is completed. We have been studying "Banks and Banking" and "Loans and Investments," and as a result of the final examination eight of our members are entitled to Institute certificates of graduation. At the last meeting of the Chapter the following officers were elected for the ensuing year: President, W. B. Schachte, Germania Savings Bank; vice-president, R. S. Small, Bank of Charleston; secretary, K. E. Bristol, Peoples National Bank; treasurer, H. W. Hopke, Germania National Bank.

KENNETH E. BRISTOL.

CHATTANOOGA CHAPTER

The work of our Chapter for the year is finished. The study classes in "Banks and Banking" and "Loans and Investments" have been very successful. Throughout the Liberty Loan campaign we have endeavored to do our "bit." On May 29 the following officers of the Chapter were elected: President, N. J. Simmons, Chattanooga Savings Bank; vice-president, F. J. Donovan, American Trust and Banking Company; secretary, D. B. Harris, Hamilton National Bank; treasurer, Carl G. Smith, Chattanooga Savings Bank.

J. HORACE McDOWELL.

WOMEN IN BANKS

EDITOR JOURNAL-BULLETIN—I think every Institute Chapter and every individual Chapter member should take particular pains to welcome women into the banking world, regardless of whether we quite like it or not. Moreover, the welcome to women should be no half-hearted affair.

WILLIAM ROGERS.

CLEVELAND CHAPTER

The final examination covering "Banks and Banking" and "Loans and Investments" has been held and about forty of our members are awaiting the result. At our meeting held on May 22 the following officers were elected to serve for the ensuing year: President, F. Perry Weber, Cleveland National Bank; vice-president, Frank B. Melten, Union National Bank; recording secretary, Frank Horton, Central National Bank; financial secretary, G. T.

Arnold, First Trust and Savings Company; treasurer, G. A. Kelsey, Cleveland Clearing House; chief consul, George A. Everson, Citizens Savings and Trust Company.
J. HOWARD HILL.

DALLAS CHAPTER

We are waiting for the result of the final examination in review of the text-books on "Banks and Banking" and "Loans and Investments," which have occupied our attention this year. We hope to add a considerable number to our list of graduates. The following is the result of our annual election: President, Tom England, National Bank of Commerce; vice-president, J. G. Morrow, Tenison National Bank; secretary, Gilbert Robertson, City National Bank; treasurer, E. T. Ward, Security National Bank.

HARRY C. ARD.

SUBSTANTIAL SERVICE

Many centuries ago Cicero said: "What greater or better gift can we offer the republic than to teach and instruct our youth?"

DAYTON CHAPTER

Study classes this year have been conducted in "Banks and Banking" and "Commercial Law" and the attendance has been excellent. The following officers have been elected for the ensuing year: President, Lawrence C. Bucher, Dayton Savings and Trust Company; vice-president, F. H. Stachler, North Dayton Savings Bank; secretary, Russell H. Kastner, Dayton Savings and Trust Company; treasurer, Warren Husted, First Savings and Banking Company.

LAWRENCE C. BUCHER.

EDUCATION BY TRIBULATION

An ancient philosopher said the trials and tribulations of life are for the education and the betterment and the improvement of the man who endures them.

WACO CHAPTER

Our study classes, which have been conducted this year in "Commercial Law" and "Negotiable Instruments," have been discontinued for the summer. They will be resumed about September 1. The following are the new officers elected: President, Karl Sherman, First National Bank; vice-president, John T. Willis, Central Texas Exchange National Bank; secretary, E. G. Lilly, Citizens National Bank; treasurer, Glenn R. Murray, National City Bank.

BEAN

Robert H. Bean of the American Institute of Banking has been elected Vice-President of the State Bank Section of the American Bankers Association for the state of Maine. Bean's only limitations are the size of the pod and the height of the stalk.

NEW YORK CHAPTER

With the closing rally on June 10 the Chapter brought to a close its high-water-mark year under the second administration of President J. A. Seaborg. Announcement was made by Vice-President E. P. Gooden that twenty-nine men had passed the law course, and were entitled to the Institute certificate, while fifty successfully passed the standard banking and thirty-two the elementary, or first-year course. The following men led their respective classes and received the high scholarship prizes of \$10 in gold: Law, Rudolph J. Welti, Bank of America; standard banking, a tie between H. J. Harding, New York County National Bank, and Charles Niebling, American National Bank, Newark, N. J.; elementary, Eric Freund, Ladenburg, Thalman & Co. Fred W. Ellsworth, in one of his characteristically vigorous talks, presented the Cannon Prize of \$25 in gold to J. B. Birmingham, of the National City Bank, for the best paper on the subject, "New Business and Analysis of Accounts." After a few well-timed remarks, President Seaborg, without further ceremony, turned over the gavel to the incoming president, A. F. Maxwell, assistant cashier of the National Bank of Commerce, who outlined briefly his plans for the coming year, and then introduced the new officers. Vice-President B. S. Miller responded in rousing style. The new chairmen of committees are as follows: Educational, J. B. Birmingham; entertainment, Wm. Feick; finance, J. A. Seaborg; general forum, R. A. Philpot; savings bank forum, Wm. Clements; house, John Roeder; literature, C. M. Mead; membership, F. M. Totton; public affairs, W. H. Kniffin, Jr.; publicity, J. M. Squier; reception, Gus Boettner; speaker, C. C. Seifert. The general figures for the year show 2,665 members, with 791 registrations in the various educational courses, and an average total weekly attendance at classes of 645 men. Considering these figures in the light of a \$25,000 budget, one is astonished at the phenomenal growth and sees foreshadowed the increasingly large place the Chapter is destined to hold in New York finance. While, of course, the outlook is uncertain, in view of the impending draft of young men for the new army, the educational committee is going ahead with its plans and does not intend to curtail the extensive curriculum initiated so auspiciously. In view of the large numbers of young women now being hired by all the financial institutions of the city, and also because of the constant desire of the Chapter to be of service to the banking community in general, it is more than likely that the courses will be opened for the first time to the fair sex, and their entry, no doubt, signals the extinction of the masculine prize-winner.

FRANK M. TOTTEN.

MAKE READY

Institute men will be expected to do more than a "bit" in putting the next issue of government bonds.

DETROIT CHAPTER

Twenty-two of our Chapter members have taken the final examination in Part I (Banking), and we hope that a majority of them will be added to our number of graduates. Our class in public speaking and debate has been very successful. At the annual meeting held May 25 the following officers were elected: President, Ernest F. Goodwin, Dime Savings Bank; vice-president, John H. Langdon, Detroit Clearing House; recording secretary, Grant D. Esterling, First and Old Detroit National Bank; corresponding secretary, Eugene Fleming, Wayne County and Home Savings Bank; treasurer, A. J. Bosley, Peninsular State Bank.

FRED D. GREIG.

HARTFORD CHAPTER

Our classes which have been studying "Banks and Banking" and "Loans and Investments" have completed the year's work by taking the final examination. We are patiently waiting for the results to be announced. Our forum has had a successful season. At the annual meeting, held May 22, the following were elected as officers for the ensuing year: President, E. R. Barlow, Phoenix National Bank; vice-president, William C. Bose, Connecticut Trust Company; secretary, A. G. Mackinnon, First National Bank; treasurer, R. A. Snelgrove, State Bank and Trust Company.

A. GEORGE MACKINNON.

DULUTH CHAPTER

The annual meeting and election of officers was held with a smoker at the Tam-O'-Shanter Cabin on May 24. The following officers were elected: President, L. O. Anderson, Northern National Bank; first vice-president, Robert Magie, City National Bank; second vice-president, Charles Towner, Western State Bank; secretary, H. C. Sorenson, First National Bank; treasurer, Leslie Cromwell, First National Bank.

H. C. SORENSON.

DENVER CHAPTER

This year's classes in "Commercial Law" and "Negotiable Instruments" have completed their work and ten graduates added to our number. In addition to passing the final examination in Part II (Law), we were required to answer 250 questions in review of the Negotiable Instruments Act which were prepared by our instructor, Andrew H. Wood. The following is the result of our annual election held May 8: President, Charles R. Patch, German-American Trust Company; vice-president, Chester A. Parker, Denver National Bank; treasurer, P. J. Cullen, Denver National Bank; secretary, Charles E. Jackson, First National Bank; financial secretary, R. V. Stender, West Side State Bank.

A. E. FERGUSON.

AMENDMENTS

Amendments to Institute by-laws must be published in the August JOURNAL-BULLETIN in order to be legally presented.

EL PASO CHAPTER

Our work this year has been confined to a study of the text-books on "Banks and Banking" and "Loans and Investments," which is now about completed. The election of officers held May 28 resulted as follows: President, C. H. Teague, City National Bank; vice-president, W. C. Hayden, First National Bank; secretary-treasurer, Smythe Witham, Rio Grande Valley Bank and Trust Company.

E. L. HEATH.

THE MYSTERY OF LUCK

A LITTLE BIT OF EFFORT, a little bit of thought,
A little bit of daring and of pluck,
A little bit of courage in the fight that's being fought,
All this is often looked upon as luck.
A little bit of vision, and of faith a little, too,
A bit of stern resistance when you're stuck,
A little bit of purpose in the work you have to do,
All this is in the masonry of luck.
A little bit of wisdom, and the magic of a smile,
Some real determination when you're stuck,
The grit to keep on going till you make another mile,
Are catalogued and labeled under luck.
The wish to travel pathways that were never trod before,
To hold the lines against the foes that buck,
To keep the spirit beating when the flesh is weak and sore,
All this is in the parentage of luck.
To do the right when wrong would seem to fill your purse
with gold,
To cling to truth, nor fear the devil's muck,
To play your part unselfishly, be ever brave and bold,
Herein you find the mystery of luck.

—Detroit Free Press.

IMPROVED CHAPTERGRAMS

Writers of Chaptergrams are demonstrating the effects of training in English. Brevity and strength are consequently superseding attenuation and longitudinality.

DALEY FOR EXECUTIVE COUNCIL

Denver Chapter has unanimously adopted the following preamble and resolution:

Whereas, We believe that the Chapters between Missouri River and the Pacific Coast should be represented on the Executive Council of the American Institute of Banking; and whereas Denver Chapter has always been active in the affairs of the Institute and has loyally supported all movements which seemed for the good of the organization; and whereas Mr. Sever Daley of the Pioneer State Bank of Denver, Colorado, an Institute graduate, has twice served Denver Chapter as its president, has been active in all work of the Institute, is thoroughly familiar with the needs of the Institute, and is in our opinion well qualified for membership on the Executive Council; now therefore be it

Resolved, That Denver Chapter urge the election of Mr. Daley to membership on the Executive Council at the election to be held at the annual convention of the Institute in Chicago, September 12, 1917.

R. M. CRANE.

New Business and Analysis of Accounts

By James B. Birmingham of the National City Bank of New York—Prize Paper in the Cannon Contest Conducted by New York Chapter of the American Institute of Banking.

TWO matters are of vital interest to all bankers—obtaining new business and keeping all business on a profitable basis.

The basis of all solicitation of business should be satisfactory service. All other things being equal, the bank that renders the greatest amount of good service will get the greatest amount of good business. It is, of course, understood that every bank, before inviting business, should possess sufficient strength to eliminate any necessity of proving it. Its record must be good, and its name one that does not recall any unpleasant memories. We can also take it for granted that the bank has a management which will attract, rather than repel, and that it is well equipped to take care of any business obtained.

Probably the most important source of new business is the board of directors. There are several banks whose rapid success can be explained by looking over their list of directors. Second only to the influence of the directors should come that of the officers. In every live bank you will find the officers spending considerable time in new business efforts.

The first essential in soliciting new business is to be sure that business solicited is really desirable. No sane bank would permit its "missionaries" to make a door-to-door canvass. Much embarrassment has been caused by soliciting business that is later rejected for some reason that could have been ascertained in advance. The safest plan is to investigate thoroughly any company to be solicited and call on only such names as become "Approved" prospects.

Practically every city bank has one or more men directly engaged in getting new business. In the larger banks there are departments for this purpose. Men in this sort of work should possess certain definite qualifications, which apply in a large degree to any good salesman. The man should be familiar with his subject. A certain knowledge of the detail work of his bank is advisable—necessary in soliciting accounts from banks—and a complete knowledge of all his bank's facilities for service is essential. The new business man is the direct, authorized representative of his bank. He should possess a certain amount of dignity—enough to convince the "prospect" of the serious importance of the work. He should have unlimited tact, perseverance and enthusiasm, and should not render himself tiresome or obnoxious.

Since it is obvious that personal work is the most satisfactory, we will discuss that first. It is impossible to set down any hard and fast rules. Some few truths, however, are almost self evident. The new business man should reach the proper executive. He should convey the idea that he was particularly sent to see the prospect, especially if that be true. He should adapt the kind of talk to the personality of the man interviewed. He should get as well acquainted with the prospect as the latter will allow. He should present his arguments in concise form, and leave

before he has worn out his welcome. He should save some ammunition for his second call. Since practically all business men have their banking arrangements well established it is inadvisable to try to rush matters. Haste is a hindrance, not a help. It is advisable in all cases where a good lead develops that a letter be sent by the bank in confirmation of the call, emphasizing any particular points that were developed and signed by any officer who happens to be known by the prospect. The next call should be made after a reasonable interval, and the prospect should never be allowed to forget that the bank wants his account. Persistence pays. Correspondence can play an important part here. When a follow-up call is inadvisable at the moment, some publication of the soliciting bank or a brief letter from the solicitor may have a better effect than a call. While one should emphasize any exclusive features of service possessed by his bank, yet this should not be done to the neglect of other facilities, even though the latter are customary facilities which are found in other banks. No one should ever knock a competitor. You can say that your bank is strong, conservative, progressive, but you cannot say that another bank is unsafe, unsound or speculative.

Paying interest on commercial accounts is a pernicious practice and should be discouraged. It leads into dangerous competition, with ever-increasing interest rates. Failing in the establishment of a fluctuating rate of interest on bank balances, dependent upon the discount rate for prime commercial paper, a uniform rate, of, say 2 per cent., should be established for payment on all deposits by banks. No bank, no matter how great its desire for new business, should encourage any unsound tendencies by competing on an interest rate, and thereby literally buying business at times.

In soliciting accounts by correspondence, the same general ideas should be followed. Every letter sent should be a real letter, not a form, and should not be allowed to drift into routine phrasing. Letters should be signed by the same officer throughout the correspondence. Timeliness should be considered. It would be foolish to solicit an account from a company at the height of its borrowings for the season. Follow-ups should be regular, and, naturally, extreme care must be used in every letter sent.

Pamphlets containing articles on subjects of universal interest, such as the income tax law, and especially if reprints of a speech made by an officer of the bank, are an excellent aid to solicitation. They should be sent to all approved names, or at least to people in such lines of business as would be interested. House organs, publications of a club of the bank's employees, can be used to great advantage, especially when containing an article or a description of something that will be of general interest to business men. Some banks publish monthly reviews of business conditions, which naturally have a great value.

Time should be devoted to keeping in touch with all depositors at regular intervals, advising them of facilities for service at their disposal, watching and writing about both increased and decreased balances, and in every possible way convincing the depositors of the value of the connection and of the bank's desire and ability to be of real service. It is essential that promises made to new depos-

itors be fulfilled, and that all depositors know of and have an opportunity to use every service the bank can offer.

The value of advertising space in newspapers and financial papers is unquestioned. Few banks can get much publicity in newspapers or financial publications without buying space. While results are hard to trace definitely, there is no doubt of the value of systematic advertising. Anything which, in a dignified way, keeps the bank prominently and continuously before the business public is good business.

A highly important and necessary work of every bank is the analysis of accounts. Cost accounting has been proved necessary in every line of business, but has been neglected by banks. Until ten years ago it was heard of only in isolated cases, and even today there are many banks, city as well as country, that have no idea what part of their profits is being eaten up in carrying unprofitable accounts.

The Federal Reserve Bank of New York recognized this fact, and with its Circular No. 46, August 1, 1916, sent a short method for the analysis of accounts. Too much credit cannot be given them for this good work. There is comparatively little in print about methods of analyzing accounts, and anything that will start our bankers working on this problem—and it is that—is to be heartily commended.

It is impossible in any brief article to do more than outline the things to be accomplished. Any analysis gives only certain more or less definite figures that must be figured with other less tangible things to reach a conclusion. There is an element, especially in country banks, that should enter into the analysis, and yet cannot be definitely classified. That is the good will of the depositor and his relation to and effect on other accounts, both actual and potential.

Too many banks figure the loss of interest on outstanding balances—checks in process of collection—and guess at the overhead cost, which, after all, is the greatest hidden source of loss. While it is true that any large percentage of deposits of checks on distant points can easily convert an account with a credit balance into one whose balance is really on the other side of the ledger, yet most banks look after this side of the analysis to the neglect of the overhead cost of doing business.

Any careful analysis should include at least the earning power per dollar of net deposits, the general expense per dollar of deposits and the cost of handling each item.

The average ledger balance can, of course, be readily obtained. Sheets should be kept for every account showing the daily amount of all checks deposited, not immediately collectible, divided according to the length of time necessary to collect. From these figures can be obtained the daily total of outstanding checks. At the end of the month you deduct the average amount outstanding from

the average daily balance. The result, less legal reserve required, is the loanable balance. The analysis also includes any interest paid on the balance, and a record should be kept showing exchange paid by the bank on checks deposited, and exchange charged the depositor.

By now we have ascertained the gross profit or loss on the account, and this is as far as most banks go, although some would also figure in the profits on foreign exchange or letters of credit.

We must now apportion the expenses of the bank to those departments where they belong. The annual expenses are distributed according to the various kinds of business done by the bank. When the expenses that may be justly charged to depositors accounts are figured they are still further divided according to the activity, size and number, of which, naturally, activity is most important.

When this is thoroughly done, and I know of no better system than the one described in the circular of the Federal Reserve Bank of New York, previously referred to, we can tell what it costs to handle each item, either deposited or paid, what it costs for each account each month in proportion to balance, and what it costs each month for each account.

By then taking the total number of checks deposited each month and the total number paid, for that depositor, the net profit or loss—and it is "loss" entirely too often—can be correctly reached. Where it is desirable to go even farther, the cost of the checks deposited can be figured according to the departments involved in handling them—whether clearing house items, self checks, non-member city items or transits.

No analysis would be complete that did not take into consideration any special gratuitous services rendered the depositor. This would include, for instance, credit reports furnished.

A still further analysis is necessary where checks are sent to out-of-town correspondents for remittance. The monthly total of sendings, the collecting bank's exchange charges, and the loss of interest on outstanding items, are the main items to be figured. The collection charges paid and the interest loss are added, and from this is sometimes deducted the exchange paid by the depositor, and always the net profit on the reciprocal balance carried by the collecting bank. The answer then gives you the result of your reciprocal arrangement with the collecting bank.

Too many banks are today doing much business at a loss. Their desire to increase their ledger totals leads them into the taking of new accounts that are unprofitable, although they may not appear so until analyzed. New business work pays, and an analysis department will pay more. Any bank starting such departments will never give them up while its stockholders expect dividends.

Solicit new business and analyze your accounts—and watch your bank grow in deposits and surplus.



MEMBERSHIP CHANGES

REPORTED FROM MAY 26 TO JUNE 23, 1917

There are frequent changes which come about through consolidations, mergers, liquidations and changes of title. The General Secretary of the Association would appreciate receiving from members notice of any changes which occur, for the purpose of keeping the membership list correct and giving publicity through the columns of the JOURNAL-BULLETIN.

CaliforniaSan Diego.....Bank of Commerce & Trust Company and Southern Trust & Saving Bank consolidated as Southern Trust & Commerce Bank.

North Dakota....Grandin.....State Bank of Grandin succeeded by Guaranty State Bank of Grandin.

Sonora.....Sonora National Bank taken over to be liquidated by First National Bank.

Ohio.....Athens.....First National Bank consolidated with Athens National Bank.

Cincinnati.....Central Trust & Safe Deposit Company succeeded by Central Trust Company.

Illinois.....Chicago.....Auburn State Bank closed.

Edwardsville.....First National Bank merged with Bank of Edwardsville.

Mohawk German Banking & Savings Company changed to Mohawk German Bank.

Omaha.....First National Bank succeeded by Bank of Omaha.

Oklahoma.....Inola.....Inola State Bank merged with First State Bank.

Massachusetts....Worcester.....Worcester Trust Company changed to Worcester Bank & Trust Company.

Oregon.....Hillsboro.....American National Bank consolidated with Shute Savings Bank.

Montana.....Winifred.....Farmers State Bank succeeded by First National Bank.

Texas.....McLean.....American State Bank converted to American National Bank.

New Hampshire..Rochester.....Rochester National Bank and Rochester Loan & Banking Company consolidated as Rochester Trust Company.

Schwertner.....Farmers State Bank succeeded by First National Bank.

Sweetwater.....Thomas Trammell & Company, bankers, closed.

NEW AND REGAINED MEMBERS FROM MAY 26 TO JUNE 25, 1917, INCLUSIVE

Arizona	First National Bank, Florence.	Montana	First State Bank, Brockway. Treasure State Bank, Hysham. Northwestern National Bank, Livingston. Lothair State Bank, Lothair. First National Bank, Roy.
California	Bank of La Mesa, La Mesa (regained).	New Jersey	Farmers & Mechanics National Bank, Woodbury.
Delaware	Baltimore Trust Company, Selbyville (regained).	New York	Union Bank of Canada, New York.
Idaho	Stockgrowers Bank & Trust Co., Pocatello	Oklahoma	First National Bank, New Wilson. Wirt State Bank, Wirt.
Indiana	Tri-State Loan & Trust Co., Ft. Wayne.	Tennessee	Meigs County Bank, Decatur.
Iowa	Peoples National Bank, Albion. Farmers Savings Bank, Carlisle. Conway Savings Bank, Conway. Derby State Bank, Derby. Citizens Mutual Bank, Donnellson. State National Bank, Iowa Falls. Peoples State Bank, Maxwell. Montezuma Savings Bank, Montezuma. Citizens National Bank, Royal. Washta State Bank, Washta. Security Savings Bank, Waterloo.	Texas	Arlington National Bank, Arlington. Guaranty Bank & Trust Co., Beaumont. First State Bank, Bigwella. Continental State Bank, Burleson. Guaranty State Bank, Houston. Houston Bank & Trust Co., Houston. Houston Trust & Savings Bank, Houston. First State Bank, Killeen.
Kansas	Peoples-Home State Bank, Chanute. First National Bank, Potwin. Citizens State Bank, St. Francis.	Virginia	Bank of New Hope, New Hope.
Michigan	Peoples State Bank, Springwells Branch, Detroit. State Savings Bank, Manistique. Saginaw Valley Trust Co., Saginaw. Citizens State Bank, Sturgis.	West Virginia	Bank of Cairo, Cairo.
Mississippi	Bank of Baldwin, Baldwin. Citizens Bank, Tunica.	Wisconsin	Farmers & Merchants Bank, Tomah.
Missouri	Walton Trust Co., Butler. Enon Exchange Bank, Enon. Bank of Gifford, Gifford. Bank of Hughesville, Hughesville. National City Bank, Kansas City. Farmers Bank of Mt. Vernon, Mt. Vernon. Newmarket Bank of St. Louis, St. Louis. Bank of Seymour, Seymour. Farmers Bank of Sheridan, Sheridan. Bank of Vanduser, Vanduser.	Canada	Canadian Bank of Commerce, Cranbrook, B. C. Canadian Bank of Commerce, Creston, B. C. Canadian Bank of Commerce, Fernie, B. C. Canadian Bank of Commerce, Greenwood, B. C. Canadian Bank of Commerce, Nelson, B. C. Canadian Bank of Commerce, Penticton, B. C. Canadian Bank of Commerce, Princeton, B. C.
		Mexico	Lacaud & Son, Mexico City. Lacaud & Son, Tampico, Tamaulipas. Tampico Loan & Trust Co., S. A., Tampico. Tamaulipas. Lacaud & Son, Vera Cruz.

